

Department of Technical Co-operation for Development

PUBLIC AUDITING TECHNIQUES FOR PERFORMANCE IMPROVEMENT

**Report of the United Nations/INTOSAI
Seminar on Government Auditing
Vienna, 14-25 May 1979**



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Part one
REPORT OF THE SEMINAR

INTRODUCTION

This report covers the fourth seminar in a series of interregional seminars on government auditing organized jointly by the United Nations and the International Organization of Supreme Audit Institutions (INTOSAI). It was held at Vienna from 14 to 25 May 1979.

The first seminar in the series was held at Baden, Austria, in May 1971, it dealt mainly with the general principles, methods and objects of auditing, and related international problems.

The second seminar was divided into two sections: the first part was held at Vienna in May 1973 and the second at Berlin, Federal Republic of Germany, in September 1973. The latter seminar dealt basically with the techniques and methods of Supreme Audit Institutions designed to improve government financial and operational control.

The third seminar was also held at Berlin, Federal Republic of Germany, and took place in May 1976. It was mainly concerned with questions of budgeting and accounting, the status of Supreme Audit Institutions and the audit of public enterprises.

The fourth seminar, the subject of the present report, dealt mainly with principles of audit, organization audit, performance audit and audit of public enterprises. The sessions of the seminar were chaired by Mr. T. C. Chang, Director of the Division of Public Administration and Finance, Department of Technical Co-operation for Development, United Nations Secretariat and Dr. Jorg Kandutsch, President of the Austrian Court of Audit and Secretary-General of INTOSAI. The latter opened the seminar, and the former delivered a message from the Secretary-General of the United Nations.

The message of the United Nations Secretary-General emphasized the importance of government auditing in the effective management of the public sector programmes of the developing countries, especially when the United Nations is fostering the policies of a new international economic order. It referred to the evolution of the concept of audit in recent years, and pointed out that auditing has been increasingly dealing with the performance of public organizations and their contributions to both national organizations and national development. The message also expressed the conviction that the exchange of views and experiences among the participants of the seminar would make an important contribution to productivity and the effectiveness of programme management. In conclusion it expressed gratitude to the Government of Austria for its support.

In his welcoming address to the participants, the President of the Republic of Austria, Dr. Rudolf Kirchschläger, expressed his appreciation to the United Nations and INTOSAI for the organization of world-wide seminars in government auditing. This was the third seminar to be organized in Austria, and that was an indication of the importance of the country as an international meeting-place as well as recognition of the high professional standard of the Austrian Court of Audit. Continuing, the President underlined the importance of auditing in the

life of an orderly State. He said that auditing for the purpose of criticizing only would not be sufficient; public auditing should be recognized as a constructive activity that served the people. The individual citizen was entitled to be assured that public funds were used with the diligence of a reliable business man and employed for the benefit of the people as a whole. Finally, Dr. Kirchschläger expressed his good wishes for a fruitful seminar which would lead to further improvement of government auditing, both in individual countries and in international organizations.

The substantive agenda of the seminar covered the following four subjects.

principles of audit; organization audit, performance audit for development; and audit of public enterprises.

Taking advantage of the presence at the meeting of representatives of multilateral and bilateral agencies for technical co-operation, the participants also discussed different methods of technical co-operation for government auditing and accounting.

The seminar was attended by 36 participants from 28 developing countries and nine participants from seven developed countries. Representatives of the United Nations, the World Bank, the International Monetary Fund and the German Foundation for International Development were also present. The annex lists the participants.

The present report was prepared by a drafting committee composed of Mrs. Leonor Briones, President of the seminar, Mr. C. J. Stacey, Rapporteur, and Messrs. Beran, Perez-Salgado, and Rayyan. It is based upon the papers and lectures that were presented and the discussions that took place around them. Part one consists of summaries of the presentations and discussions that took place, and the conclusions and recommendations agreed upon. Part two is comprised of the unedited texts of the four main papers that were presented.

I. PRINCIPLES OF AUDIT

The discussion of principles of audit was based on the Lima Declaration of Guidelines on Auditing Precepts; the theme was introduced by the representative of the Court of Audit of Austria. It was explained that, in accordance with a resolution passed by the Congress of Madrid, in 1974, the Supreme Audit Institutions (SAI) of Italy, Spain, the Federal Republic of Germany and Austria formed a working group to prepare a paper which was approved by the Congress of Lima in 1977. The resulting Lima Declaration of Guidelines on Auditing Precepts was regarded as an ideal long-term programme, probably not yet fully implemented in any country. The Declaration had no mandatory power, being only in the nature of recommendations, but it was considered to be a summary of generally accepted principles of auditing and accounting. In many countries parts of the Declaration have been adopted into the legal system.

The seminar discussed the problems associated with pre-auditing and post-auditing. The advantage of pre-auditing was that detrimental effects could be corrected before their occurrence. In the case of post-auditing the damage had already occurred and it might not be possible to effect a remedy. But pre-audit was highly labour-intensive and could blur responsibility under public law and interfere with the authority of the competent administrative institutions.

Most of the participants stressed the advantages of post-audit but emphasized that it must be done as promptly as possible. However, it was also stated that the regulations which applied in the Federal Republic of Germany encouraged pre-audit, especially in the case of expensive large-scale construction projects, where it was expected that the plans would be audited by the Supreme Audit Institution, in order to avoid mistakes that could not otherwise be corrected.

The seminar also considered the relation between internal and external audit and agreed that a most appropriate and broad division of tasks between the dependent - but sometimes much better informed - internal audit services and the independent, external Supreme Audit Institutions should be achieved by co-operation at all levels. To the extent possible the SAI should help the internal audit in drawing up guidelines and programmes, and check the effectiveness of the internal audit in carrying out their tasks.

The Lima Declaration required that all aspects of public administration should be subject to audit. Items separated from the central budget should be covered also and the SAI should be entitled to audit any organization dealing with public funds.

It was stressed that the auditing objectives to be applied by SAI - legality, regularity, efficiency, effectiveness and economy of financial management - are basically of equal importance. In addition, the importance of the independence of Supreme Audit Institutions was emphasized. It was recognized, however, that being part of the State, the SAI could not be independent of all public authorities. Its role was that of a corrective power. If that role were to be fulfilled effectively, there was a need for the independence of the SAI officials, who should have security of tenure and access to sufficient financial means for the SAI to carry out its tasks.

The relationship of SAIs to Parliament was also considered. The seminar was unanimously of the opinion that, regardless of its position as agent of Parliament, the SAI should have the maximum degree of initiative and autonomy. The relationship of the SAI to government and the administration could be influenced by the fact that the activities of government itself were subject to audit in respect of the financial consequences. It was agreed that SAIs might sometimes have to examine political objectives and their fiscal results. This would be particularly necessary when aspects of financial management were in question.

In a discussion of different auditing methods and procedures, it was pointed out that in many cases a sampling technique would have to suffice. The seminar also agreed that the auditing staff of the SAI should have the highest relevant qualifications as well as moral integrity. A broad analytical mind and thinking would be necessary as well as the capacity to discuss and absorb new concepts and ideas. This required a continuous process of training and would not permit too much specialization. The importance of an international exchange of experience was stressed, with particular reference to the necessity for a uniform terminology of public finance control.

Finally, the seminar dealt with the publication of audit reports. Annual reports or special reports on important and significant findings would ensure extensive information and discussion and create a more favourable climate for enforcing the findings of SAIs. In connexion with the audit competence of SAIs, a particular problem seemed to be the audit of public authorities abroad. Since these would involve acts of sovereignty on "foreign territory", difficulties under international law might arise. Whether the respective SAI was entitled to audit international grants and loans would depend on the national law of the accepting country. The performance of an audit by the SAI of the donor country would be against international practice if it were not agreed to by the respective States.

The seminar participants also agreed that tax audit without examination of individual tax files was hardly possible. The objection occasionally raised that the personal rights of individual citizens might be impaired should be overruled by the fact that such disadvantages were a necessary concomitant of any audit.

After a short discussion of other problems connected with the audit of public works and EDP systems, it was emphasized that enterprises established under private law should be subject to audit by SAIs if the Government had a substantial participation in them, particularly where this was a majority participation or a dominating influence.

Finally, the audit of subsidized institutions was considered in detail. All participants were of the opinion that the use of public funds must necessarily involve public examination and accountability.

II. ORGANIZATION AUDIT

The subject of organization audit was introduced by a representative of the Federal Court of Audit of the Federal Republic of Germany. Attention was focused on the objectives of organization audit as developed in the Federal Republic, the process of conducting the audit and the description of the steps involved in a typical audit of a ministry in the Federal Republic. After the presentation, some time was spent in discussing whether organization audit should be one of the functions of the SAI. The opinions expressed covered a wide range of views. Some felt that SAIs should refrain from organization audit; others believed that organization audit was one of the basic functions of the SAI. A number of participants thought that organization audit should be a function of an organization and methods department, rather than the SAI. They expressed the concern that the SAIs might be suspected of empire-building. Also, it was thought that expanding into organization audit might result in scarce audit resources being spread too thinly.

However, a few SAIs from industrialized countries pointed out that organization audit was considered a basic SAI function. All financial audits had an organizational component; sometimes special organization audits had to be conducted also. Both types of audit should be the responsibility of the SAI. They claimed that in some instances financial audits were not useful without a corresponding examination of the organization structure. It was tentatively concluded that, while organization audit should be a function of the SAI, it must be recognized that some SAIs would not be able to go into this specialization at present.

A related issue which was subsequently discussed concerned the alternative steps that might be undertaken by SAIs that were not in a position to conduct organization audit. Opinions varied on this question. A participant from one industrialized country commented that his SAI did not usually embark on organization audit unless the need for it arose out of the financial examination. But it was important that SAIs should look at recommendations made by other organizations, to ensure either that they were put into effect or that good reasons were advanced for not doing so. Proponents of organization audit countered that there might be difficulties in finding other organizations with sufficient independence, technical expertise and the ability to secure the enforcement of proposals.

The above-mentioned discussion led to questions of implementation. One participant inquired into the degree of success attained in implementing organizational reforms. It was reported that about 50 per cent success in the recommendations had been attained. Some participants warned against interference in political decisions. They also felt that the status of the SAI as an independent and non-political organization should be maintained. These views were followed by an exchange of successful and unsuccessful experiences in implementing recommendations for organizational reform.

The difficulties faced by the SAIs of less developed countries in performing organization audit were said to consist of the following: lack of technical

expertise in data-gathering; problems of treating data which could not be quantified or measured; and the lack of equipment needed. It was generally agreed that training in the specific techniques of organization audit should be initiated either at the country or regional level.

Issues were also raised on some of the technical aspects of the presentation. On the use of the questionnaire, some participants suggested that the over-all environmental conditions of the organization under audit should be considered, including salary systems and physical working conditions. It was pointed out, for example, that in the case of the Federal Republic of Germany, pay levels were not taken into consideration, because they were already well established. Another observation was that the questionnaire dealt only with data that could be quantified or measured; it was suggested that unquantifiable data should also be considered. It was explained, in response, that the questionnaires are specifically intended to gather objective information. Studies on organizational behavior are still highly theoretical, and findings would be difficult to defend in Parliament. It was further explained that findings are not to be made public; they are best discussed on an informal basis with the officials concerned.

The discussion on the process of organization audit ended with the general agreement that the subject had to be studied further in the light of the varied experiences of the SAIs. It was agreed that detailed case studies might help resolve the issues that were brought up during the discussion. Two country studies based upon the experiences in the Philippines and Tunisia were then presented and discussed. They are summarized below.

The Philippine experience

The case study presented by the Philippine SAI, the Commission on Audit, concerned the Philippine experience in organization audit of the accounting department of the Philippine National Railways, a public enterprise. The presentation was divided into seven parts: the state of organization audit in the Philippines; background of the case; the methodology used in the conduct of the audit; the main findings; immediate actions taken; long-range recommendations submitted by the Philippine SAI; and the lessons learned from the experience which could be useful to other SAIs of less developed countries.

The speaker explained that in the Philippines, the SAI ventured into organization audit only recently. Other ministries, e.g., the Ministry of the Budget, the Civil Service Commission and the Presidential Commission on Reorganization, also conducted organization audit. In the case presented for discussion, the original contract with the Philippine National Railways was for the design and implementation of an accounting system; fixed asset verification, classification and revaluation; and design and implementation of an internal audit system. In the course of implementing the new systems, the Philippine SAI realized that the existing organizational and personnel structure could not cope with the changes. This led to the conduct of an organization audit in order to restructure the Accounting Department.

Immediate action was taken on some structural problems and personnel deficiencies. Long-range recommendations, particularly on personnel, were also made. Special mention was made of the lack of technical expertise of personnel and

their low morale. The case study concluded that, with the changes made in organizational structure, delays in the preparation of financial reports were minimized.

The Philippine SAI learned the following lessons from their exercise on organization audit: first, the financial accounting system could not be separated from the organizational structure and the personnel system; secondly, there was need to continue the training and education of auditors in specializations like organization audit; and finally, that supreme audit institutions of less developed countries could venture into organization audit with some measure of success. There were difficulties, but they could be overcome by building up the necessary technical capability. Technical knowledge, combined with creativity, initiative and patience would contribute towards success in organization audit.

The discussion following the Philippine presentation concerned the following major issues: whether SAIs should engage in organization audit at all; the problem of jurisdiction in relation to other ministries; the question of whether a special unit of organizational specialities should be set up or whether the regular auditors themselves should conduct the organization audit; the issue of personnel morale and low salaries; and what steps the SAIs should take in order to ensure implementation of proposed organizational changes.

Again the issue was raised as to whether SAIs should really go into organization audit. Some participants stressed that financial audit was completely different from organization audit. The view was held that SAIs from less developed countries should not go into organization audit because it was not one of their basic functions and they did not have the capability to perform such a task at the time. However, it was explained that there had been many instances when a SAI had had to undertake organization audit, as described in the case study. The connexion between organization structure and financial system was reiterated.

A closely related problem, the sensitive issue of jurisdiction in relation to other ministries, was also raised by several participants. It was pointed out that in many countries there were other ministries primarily engaged in the process of organizational analysis and administrative reform. If a SAI which was traditionally engaged in financial and compliance audit performs organization audit, the problem of jurisdiction would inevitably arise. What could be done to minimize the conflicts that might arise with other ministries? It was explained that such a problem was common in the less developed countries. The SAIs had to exert tremendous effort to have the idea of organization audit by them accepted. That could not be accomplished over night and had to be done gradually. In the Philippines, the SAI had taken the initiative by starting a dialogue and establishing working relationships with ministries directly involved in organizational analysis. Both formal and informal techniques had been used. Currently the SAI sat in on committees concerned with organizational and personnel issues. At the same time, it was taking concrete steps to improve its expertise in organization audit. Thus, it had not only to insist on its "legal" right to conduct organization audit; it also had to prove that it had the competence to conduct such a specialized task. It was emphasized that the SAIs themselves must take the initiative in this respect.

Another important issue that was discussed at some length dealt with organizational arrangements. The question was whether there was a need to create

a special unit to specialize in organization audit, or whether it should be conducted by auditors in the course of their regular audit? The reactions to this question were varied. Some participants from advanced countries stressed that organization audit needed special skills very much different from those needed for financial audit. Therefore, specialists would be necessary. At the same time, they noted that if a separate unit of organizational specialists were set up, recommendations for organizational change might be in conflict with financial methods and systems. There was agreement that organizational arrangements would vary from one country to another, depending upon the extent to which the SAI was engaged in organization audit.

One problem that was discussed with some concern was the issue of personnel morale and its effect on the productivity of the employees. Participants from less developed countries observed that the low morale of employees was related to inadequate pay and the lack of reward systems. On the other hand, participants from advanced countries claimed that salaries of personnel did not present a problem in their countries since salary scales were already well established. It was reported that in the Philippines, some steps have been taken to raise the morale of government employees. Aside from restructuring pay scales, training programmes always include a module on "development perspectives" in which the goals of development, the role of the bureaucracy in implementing such goals and the role of the employee in development were explained. There is an effort to build up a "development orientation" among government employees.

A final issue that was discussed was the extent to which recommendations of SAIs for organizational reform could be implemented. Quite a number of participants from various SAIs asked how the implementation of recommendations could be ensured. It was observed that the extent to which it could be done depended on a combination of factors, both external and internal. For example, the Philippines National Railways was required to initiate organizational and financial reforms as part of a loan package. At the same time, the political climate favoured a more positive response to change. The management of the Company was determined to initiate reforms. Finally, the fact that the recommendations were made by the Philippine SAI was an important factor. The Philippine SAI had strong powers of moral persuasion and enjoyed support from the political leadership. The issue raised generated a great deal of concern in the light of the experience of many countries where recommendations for organizational reform, whether proposed by the SAI, another government ministry or an external institution, were seldom implemented.

The discussion ended on the general observation that organization audit was an important function of SAIs. However, constraints were recognized and it was agreed that SAIs of less developed countries had to take positive steps in resolving their difficulties. It was agreed that the experience of the Philippines showed favourable possibilities for the SAIs of less developed countries.

The Tunisian experience

The Tunisian case study recognized the fact that the administration, the key executive instrument of the Government, could contribute in a decisive manner to the success or failure of a Government's policy. In order to ensure that such a positive contribution would be made, it was necessary for the administration to become development-oriented. This requirement presupposed the following conditions:

- (a) In the initial period, the need for well organized administrative services;
- (b) In the next stage, the need for adequate control of the administrative organization so as to determine any failures, gaps or reorganization required, i.e., measures to be taken in the interest of safeguarding the effectiveness and efficiency of public expenditures.

In Tunisia that type of control was assured by the Court of Audit, the General Inspectorate of Administrative Services and, to a certain extent, specialized inspection services in each of the ministerial departments. The Court of Audit indicated the organizational defects it had found and asked for their correction. The General Inspectorate carried out in situ inquiries and proposed any necessary reforms. The reports on those enquiries were addressed to the Court of Audit. The internal inspection services produced periodic reports to the General Inspectorate, and the Court of Audit received copies of the reports as well.

An organization audit was carried out in the Ministry of Education, one of the most important ministries in the country, owing to the role it had to play, the amount of money made available to it and the large number of employees at its disposal. Organization was therefore an important issue.

It was found that the Ministry's form of organization dated back to a plan made in 1972. Under it, the central administration comprised five directorates: three for the different levels of education (primary, secondary and higher education) and two general directorates for personnel and financial affairs. It was the task of the general directorates to execute the decisions made by the others.

Such a highly concentrated form of organization led to duplication of work and delays in the execution of tasks. To overcome those deficiencies four regional delegations were established at the secondary level, while primary education had four financial and administrative regional services at its disposal. That somewhat ill-advised decentralization did not, however, bring satisfactory results. The responsible officers at the central level were not prepared to delegate the necessary powers to the responsible officers at the regional level, nor were they ready to reduce the number of official positions at the central level. The intervention of the General Inspectorate became necessary.

The first task undertaken by the Inspectorate was an in situ inquiry and the preparation of a preliminary study to delineate the field of investigation. That study was followed by an in-depth examination of the chief problems, accompanied by a continuing dialogue with the responsible officers concerned.

On the basis of its intervention, the General Inspectorate was able to elaborate a reorganization project based on the form of organization established in 1972, the current situation of the department and the proposals that came forward from the responsible officers of the different directorates. The project has given rise to an ongoing discussion between the General Inspectorate and the Ministry of Education.

In elaborating the reorganization project a number of important principles were respected.

(a) The distinction between study, co-ordination and audit functions, on the one hand, and the management function, on the other - the former being exercised by the central administration and the latter by the regional administration;

(b) The need to create a homogeneous form of organization by transforming central directorates into functional and horizontal directorates. The current organization was of a vertical nature, while certain directorates had horizontal functions. It was appropriate to strive for a uniform type of organization;

(c) The determination of the number of functional positions in terms of the existing volume of work. It was first of all necessary to define the functions to be taken care of at the central level and to define the status of the individual functions as well the scope of the jurisdictional units in terms of their importance;

(d) The establishment of a uniform chain of command at the regional level. All regional services of a department must be answerable to a single regional head;

(e) A better distribution of staff members among the different services. The assignment of officers must be based on the actual needs of each directorate and be in line with the job profile of each individual position.

The reorganization of the Ministry was still under way. The reorganization project presented by the General Inspectorate was being discussed by the Inspectorate and the relevant department. There were still various difficulties to be overcome. Nevertheless, the practical results achieved in the case constituted a good start, particularly since Tunisia was only beginning to gain experience in matters of organization audit. The difficulties encountered would not be allowed to prevent consolidation of experience in that field and the search for an administrative organization that would fully meet the criteria of rationality and effectiveness.

III. PERFORMANCE AUDIT FOR DEVELOPMENT

The paper on performance audit for development was presented by the Division of Public Administration and Finance, Department of Technical Co-operation for Development, United Nations Secretariat. Attention was focused on the following aspects of the subject: the importance and objectives of performance audit; information for performance audit; the role of supreme audit institutions; and the future of performance audit.

After the presentation, a discussion took place. One of the most important subjects raised was the competence of SAIs to involve themselves in performance audit. Most of the seminar participants felt that control of all activities that dealt with the economic performance of Governments should be subject to control by the SAIs.

There was general agreement on the importance of performance audit, although it was recognized that sound financial audit was a necessary prerequisite. The view was expressed that all auditors were involved to some extent in performance audit, the difference being one of degree in the use of the technique.

The problem of setting up standards for an efficient performance audit process was discussed at some length. There was general agreement on the need for the establishment of standards, since it would be impossible to work in performance audit without them. However, it was sometimes very difficult to establish standards for some of the social activities of the State. There was general consensus that the SAIs should have a role in the setting-up of standards along with other offices, such as the budget office, the planning office, the administrative reform office etc.

In connexion with performance audit of public enterprises it was questioned whether SAIs, in their evaluation, should take into account not only profitability objectives but also social objectives. In relation to this subject, the importance of being very clear and specific in relation to profitability, efficiency and effectiveness was emphasized. If an SAI took into consideration those three elements, it would usually not be difficult to evaluate the achievement of objectives.

The importance of controlling the capital budgeting as well as general expenditures was stressed.

There was general agreement that training was a strategic factor in the implementation of performance audit programmes. The complexity of the subject and the need for an interdisciplinary approach in the recruitment of the SAIs staff was pointed out, and one participant suggested the establishment of regional training programmes, using the case method as one of the training techniques.

It was pointed out that in order to have an effective and efficient performance audit a sound accounting system was needed. In this regard it was felt that traditional accounting systems were not sufficient, and that more analytical accounting systems were needed, with emphasis on cost accounting. However, one of the participants warned against the over-proliferation of information, which could

itself be costly, and urged the seminar not to be too enthusiastic unless it was clear that the information produced could be used effectively for management control purposes.

Some of the seminar participants felt that in order to establish the basis for performance audit and to improve the position of the SAI, they would need the contributions of the international community through its different agencies. On this aspect the representatives of the International Monetary Fund, the World Bank and the United Nations explained to the participants the type of technical co-operation they could offer and the means by which such technical co-operation could be obtained.

After the presentation by the representative of the World Bank, there was general agreement that SAIs should not attempt to substitute for executive managers in managing expenditure programmes, but that they should certainly seek to encourage performance-oriented management, reporting where it existed and where it did not.

Country studies in performance audit based upon the experiences of Denmark and Costa Rica were introduced to strengthen the presentation. They are summarized below.

The Danish experience

The case study presented by a representative of the Supreme Audit Institution of Denmark was based on examinations within the accounting province of the Royal Theatre in Copenhagen, a government institution audited by the Supreme Audit Institution.

The examinations described in the case study dealt with the utilization of the Theatre's dancers in performances, and the expenditures involved in staging and producing a selected performance. The main purposes of the examination were to assess the suitability of the performance budgets, to carry out a financial inspection and to re-organize cost-accounting as an administrative tool of control for the management of the Theatre. The case study showed, step by step, how performance audit could be carried out in the field concerned.

The case study included a brief account of the public audit arrangements in Denmark, with a special look at the accomplishment of financial audit and performance audit. The paper concluded that the growth in public budgets, increased production of national regulations, and the automation of accounting functions had made it increasingly necessary to concentrate on the audit control of performance audit.

The presentation of the case study was followed by a lively discussion on performance audit, in general, and of institutions within the sector of culture and education, in particular. An observation was made that the difference between financial and performance audit reflected the state of government audit in so-called developing and developed countries. However, the discussions revealed a general deviation from that statement. A number of Supreme Audit Institutions in developing countries were already carrying out performance audit successfully.

It was the general view that performance audit on a broad scale required greater personnel resources than audit carried out in a merely formal way. It was also suggested that any qualified auditor carrying out his duties should concern himself with elements of performance audit as well as organization audit. Those conditions were necessary in developing any audit system aimed at the critical examination of accounts.

The discussion turned into a general debate on how to organize performance audit. In reply to a question from one delegate, it was explained that within the Supreme Audit Institution of Denmark examinations like the one in question were generally carried out by the staff making the current audit of the accounts concerned.

The debate concentrated on providing expert knowledge, e.g., of the management of theatrical activities. The Secretary-General of INTOSAI suggested that it might be possible to draw on the experience of other Supreme Audit Institutions. From such co-operation between institutions, especially on a regional level, a valuable body of experience could be gathered together.

The Costa Rican experience

The speaker explained that he was not going to present a case on performance audit, since Costa Rica was confined to financial audit. In Costa Rica there were three powers, the executive, the legislative and the judiciary. The legislative power appointed the Comptroller-General of the Republic for a period of eight years. The Comptroller-General's Office had total independence, conducting the audit a priori and a posteriori. The audit a priori was mainly directed to the audit of autonomous entities, since the Office of the Comptroller-General had to approve their budgets. The Office had wide experience in the field of budgeting.

It had been found that the process of control a priori was sometimes a barrier to the efficiency and effectiveness of management. In this regard efforts were being made to improve the systems of control, in order to make them more efficient and effective. The examination a posteriori was intended to control the regularity of transactions.

The Comptroller-General's Office was trying to improve personnel policy through better training, better salary scales and the improvement of human relations. It was very interested in performance audit but did not so far have the type of staff to perform it.

In the discussion which followed the presentation, one of the subjects was the relationship between internal and external audit. In this connexion, one of the participants pointed out the importance of both types of audit in the public sector and their complementary rather than competitive nature.

The situation of the internal auditors vis-à-vis the SAI was also discussed. The importance of protecting the stability of the internal auditors and the independence of their reports was particularly emphasized.

IV. AUDIT OF PUBLIC ENTERPRISES

A representative of the State Comptroller's Office of Israel presented the paper on audit of public enterprises.

In the ensuing discussions it was pointed out that in developing countries there was a shortage of properly trained personnel to carry out economical and efficient audits of public enterprises. Part of the problem could be solved by means of further training activities in that field.

Several participants pointed out the difficulties connected with complex commercial activities of certain types of public enterprises, such as state banks, which would have to be audited on the basis of generally accepted banking practices.

The question was raised as to whether internal audit, especially in developing countries, carried enough authority to function in the necessary independent manner. The drive for professional independence of internal audit ought to be supported by SAIs.

Several participants of the seminar drew attention to the importance of establishing, as precisely as possible, the aims and objectives for which a public enterprise had been set up and to the timing of periodic reviews of operations. Attention was also drawn to the importance of monitoring in order to ascertain whether public enterprises had been operating in order to achieve set aims and objectives. It was suggested that the seminar should recommend that in all countries the charter of every new public enterprise created by the State should be put in writing by the highest executive authority. The charter should define the aims and objectives of the enterprise. It would then become the basis by which the state audit of the enterprises could judge the performance achieved.

Several methodologies of state audit in public enterprises were enumerated during the discussion: the use of questionnaires; rational analysis; financial analysis; and so on.

After the main presentation, two illustrative country studies based upon experiences in Ghana and Sri Lanka were introduced and discussed.

The Ghanaian experience

In a case study involving the audit of the State Trading Corporation in Ghana it was said that statutory responsibility for the audit of that enterprise was the SATs. However, the SAI did not possess adequate staff of requisite experience to handle an audit of that magnitude. In order for the corporation to be subjected to the same tests as its competitors in the private sector, which were audited by commercial firms, the SAI entrusted its audit responsibility jointly to two firms of auditors. Broad guidelines on the conduct of the audit were, however, laid down for the auditors in the form of a contract of appointment with specific requirements and a statement of "audit standards" which they were expected to maintain.

The SAI did not consider the arrangement ideal and would like to see certain definite changes which would ensure that SAI staff were directly involved in the audit of state enterprises so as to inquire into such areas as efficiency, economy and effectiveness in the use of resources and execution of programmes.

The Ghana case study also referred briefly to the Second AFROSAI Assembly held at Accra in February 1979, at which the following three subjects were discussed:

- (a) The role SAI can play in the social and economic development programmes of African countries;
- (b) Staff development and training to meet the needs of African SAIs;
- (c) The audit of multinational corporations.

The Accra conference recognized the important role which SAIs can play in developing countries. They should therefore be encouraged to develop their staff resources and methodology. Since the institutions were at varying degrees of development, the possibility of utilizing experience gained by others should always be explored and encouraged. The need for interchange of staff within various developing countries and for creating their own cadre of experts should be explored. The United Nations could be of immense assistance to developing countries in this connexion.

The Sri Lanka experience

Two case studies were presented by the representative from Sri Lanka. The first dealt with a foundry which was established as a branch of a government corporation. A study lasting eight months was undertaken by a team of two officers from the SAI, covering operations over a 10-year period. It was found that the project was over-capitalized; there were management and technical inefficiencies and defects in accounting. Following these inquiries, a report was made and corrective measures taken.

The second case study concerned a trading corporation. A close study of transactions revealed that sales of scarce items intended for wide distribution were being made to favoured customers. Such action did not involve the enterprise in financial losses, but it defeated the object for which it was created. As a result of the audit examination, proceedings were begun to correct the situation.

V. TECHNICAL CO-OPERATION

The seminar discussed various aspects of several bilateral programmes and was also informed of the operations of the technical co-operation of the United Nations Secretariat, the United Nations Development Programme, the World Bank and the International Monetary Fund. Five presentations were given on this subject. By way of introduction, the representative of the German Foundation for International Development explained the nature and tasks of his organization, which was financed exclusively from public funds. Since it had come into existence in 1962 the Foundation organized a large number of educational and training activities for personnel from developing countries. In recent years, the activities of the Foundation covered many accounting and auditing problems. In this connexion, co-operation with the regional organization of the Supreme Audit Institutions in developing regions (ILACIF, AFROSAI, ASOSAI) had been very fruitful.

The Foundation had assisted in the training of personnel already employed by developing countries in such activities as budgeting, accounting and public administration. Almost 70 per cent of the training activities of the Foundation were organized in the developing countries themselves. Emphasis was placed on the training of personnel already employed by the Governments of developing countries, because the Foundation believed it to be more likely that such employees would return to their governmental positions. The Foundation did not provide basic training because it believed that such training could and should be provided by local institutions.

The participants generally accepted that the purposes of development aid were defeated if personnel receiving the benefits of long-term training in industrialized countries did not return to their own countries to pass on those benefits. The Foundation did not normally provide funds for research studies by developing countries because a large number of such studies had already been carried out, and also because the Foundation believed that its funds would be better utilized in follow-up training to meet specific needs. Some of the seminar participants, however, felt that there was need for further research studies into the particular problems of developing countries.

The accounting and financial management needs of developing countries were discussed by the representative of the United States SAI. It was pointed out that substantial amounts of money were being provided to developing countries for very worthwhile purposes, such as for problems associated with population growth. A broad examination of that particular type of assistance had disclosed a number of significant problems which could be alleviated by better accounting and financial management. They included such matters as the determination of the resource requirements in physical and financial terms and the observation and monitoring of programme performance. There was need for assurance that there was no overlapping of programmes, that resources were applied where they were most needed, and that opportunities for cost savings, for example, through the consolidation of requirements for the procurement of material, supplies and services, were identified. Because of the many problems noted by the United States SAI, the organization had inquired into the extent to which additional training of foreign

nationals in financial management might be helpful. It had been found that little emphasis was being given to such training by major organizations involved in international development lending or grant programmes.

A survey in selected Latin American countries which the United States SAI believed were fairly representative had disclosed that the serious shortages of trained personnel were due to a variety of factors, such as inadequate salaries and civil service tenure problems. The survey concluded that it would be necessary to improve accounting and auditing practices, that there was need for additional training in accounting and auditing and for an evaluation programme.

The United States SAI had instituted a programme under which five or six fellowships would be awarded to INTOSAI organization employees. The INTOSAI, because it was composed of heads of Supreme Audit Institutions, was in the best position to provide general guidance, and it was suggested that sub-committees might be set up to deal with specific problems.

The seminar participants generally agreed that the image of SAIs needed to be improved and that other government officials should be made aware of the problems which existed. There had to be a correction of the legal constraints which often prevented the development of effective training programmes.

The participants generally agreed that steps should be taken to convince donors and recipient countries of the importance of financial management and accounting in the attainment of national development objectives and goals. In this connexion international measures could be very helpful. It was suggested that a sub-committee of SAIs from industrialized countries should be established. Its purpose would be to bring to the attention of donor agencies the importance of sound financial management in the achievement of the objectives for which assistance was provided. The seminar suggested that the proposal might be considered at the next meeting of the INTOSAI Board.

The seminar was informed of the nature and methods of technical co-operation provided by certain units in the United Nations system in the fields of accounting, auditing and financial management. The representative of the Department of Technical Co-operation for Development of the United Nations Secretariat explained that the United Nations technical co-operation system worked through a financial agency, the United Nations Development Programme (UNDP), and executing agencies. The Department had the substantive competence, through the services of its Division of Public Administration and Finance, to provide technical co-operation to developing countries in the fields of government auditing and accounting.

It was explained that, in its country programmes, UNDP allocated a certain amount of money to each developing country, called the Indicative Planning Figure (IPF). The amount of this figure depended mainly on the size of the country and its degree of development. The IPF generally corresponded to the planning period of the country. The allocation of the IPF to different projects was decided upon by the UNDP office in the country, the planning office and the respective government agency. Once the resources to a given project were allocated, the executing agency sent to the country an adviser, who would write the project document. When the project document had been approved and signed by UNDP, the executing agency and the Government, the project was ready to start operations. Generally speaking, projects consisted of experts and consultants, fellowships, study tours and equipment. The

executing agency recruited the experts and consultants, placed the fellows abroad and sent the equipment to the country. In the field, one of the experts was designated as the project manager, team leader or chief technical adviser, and he was responsible to the executing agency for project operations. The executing agency had at headquarters an officer responsible for monitoring the project. The project had to submit progress reports every six months, and there was provision for joint United Nations/UNDP evaluation reviews.

In addition to that type of technical co-operation, countries could obtain for short periods (not more than one month), without cost, the services of Interregional Advisers, (IRAs) who could provide technical co-operation in very specific matters. A country could receive such service by requesting it through the respective UNDP office in the country. The Division of Public Administration and Finance also did research in its field of competence and issued technical publications which were available to interested countries.

The representative of the International Monetary Fund said that since 1964 the Fund had been in a position to provide a regular programme of technical assistance in the field of public finance to member countries. Although the programme was small it covered a wide range of services, including the provision of experts to the developing countries on budgetary matters, auditing, expenditure control and government accounting systems. The assignments of experts varied considerably in duration, from weeks to years, depending on the nature of the work. The IMF experts would invariably serve in an advisory, rather than an executive, capacity.

Technical assistance was provided by the IMF only when a specific request was received from an appropriate authority. All requests were fully discussed within the Fund with the department concerned and, where appropriate, with the World Bank and other agencies. A staff member from the Fiscal Affairs Department might visit the country to review with the authorities their needs in detail and agree on a work programme, which would include assistance in the establishment of realistic field objectives and in the monitoring of progress. Furthermore, it was generally required that counterparts be assigned as a means of providing practical training for national officials who will carry on when the advisor leaves.

The Fund paid special attention to meeting requests from newly independent countries, which often had serious financial and fiscal problems and also a grave shortage of experienced staff.

The representative from the World Bank noted that performance auditing had become a universal concern of Governments and Supreme Audit Institutions. He said that although SAIs should not attempt to take over the function of project managers in controlling expenditure programmes, they should examine and assess the effectiveness of control and, where necessary, include suitable comments in their reports. By this means performance-oriented management would be encouraged and made more effective.

He suggested that regional training programmes, based on case studies, might be a helpful way of assisting SAIs in developing the monitoring function. His organization would be pleased to consider the matter, together with the United Nations and INTOSAI. Meanwhile, he reminded the seminar that a useful start would be the involvement of the SAI in the review of completed bank-financed projects.

VI. CONCLUSIONS AND RECOMMENDATIONS

The members of the seminar concluded that the discussions and exchanges of views which had taken place were useful to both the developed and the developing countries that had participated. The importance of the Lima Declaration of Guidelines on Auditing Precepts was demonstrated by the fact that those principles proved to be a major influence on legislation adopted by some member countries.

The participants also welcomed the publication by the United Nations of Handbook on Government Auditing in Developing Countries, ^{1/} which had been produced in response to a recommendation by the second INTOSAI seminar. They recommended that the Handbook be given wide distribution, and that INTOSAI members be ready to propose any amendments or improvements that seemed necessary.

The following specific recommendations were made by the seminar on the particular topics that were discussed.

Principles of audit

The Lima Declaration of Guidelines on Auditing Precepts, adopted by the Eleventh International Congress of INTOSAI in 1977, represents generally accepted principles of government auditing, and should, where possible, become part of national legislation in the course of time. Particular stress should be placed upon the constitutional position and the legal and institutional independence of the Supreme Audit Institution and on the need to provide the SAI with its own budget and thus with the financial means to assure independence, to grant the members and staff of the SAI complete independence in their professional careers and to make the arrangements necessary for the selection of personnel and further training of staff, keeping in mind the high professional standards and moral integrity required.

Organization audit

Organization audit is an important function of supreme audit institutions. However, many SAIs do not have the technical expertise to undertake it. A survey should, therefore, be conducted on the training needs of SAIs on the techniques of organization audit and the problems encountered in that field of specialization. The results of such a survey could be the basis for setting up documentation and training programmes on specific techniques of organization audit. The survey and the training programmes could be sponsored by international agencies, whether on a global or on a regional scale.

Performance audit for development

The audit of all activities relating to the economic and administrative performance of Governments should be within the competence of Supreme Audit

^{1/} United Nations publication, Sales No. E.77.II.H.4.

Institutions. The prerequisites of performance audit are a sound accounting system, an adequate financial audit, and standards by which performance may be judged. Where there are no generally accepted standards of performance, the SAI will have to state the standards by which the audit is conducted. In the process of applying performance audit to public enterprises, it is necessary to control their efficiency, effectiveness and profitability. The examination should therefore cover the realization of both financial and social objectives, assuming that the latter are properly identified and measurable. Because of the multidisciplinary nature of performance audit, staff training is a particularly important factor. In order to establish performance auditing and improve the status of the SAI, some countries continue to need the technical co-operation of the international organizations.

Audit of public enterprises

In all countries the charter of every new public enterprise created by the State should be put in writing, by the highest executive and/or parliamentary authority. The charter should define the aims and objectives of the enterprise. It would then become the basis by which the state audit could judge the performance achieved. In all cases the state audit of public enterprises should extend beyond regularity audit, and wherever appropriate it should evaluate performance in terms of market conditions. Extensive training may be necessary for the furtherance of expertise in this field.

Technical co-operation

INTOSAI, being composed of the heads of Supreme Audit Institutions, is in the best position to provide general guidance and direction on technical co-operation among its member States. It is desirable that sub-committees be set up to deal with specific problems as they arise; in accordance with one suggestion, the World Bank should notify the SAIs of member countries regarding projects in the process of being evaluated by the Bank in any given year, and should request the SAI concerned to nominate a staff member to collaborate with the Bank in the evaluation exercise. Considering the importance of conducting intensive work on the issues highlighted at the Seminar, it was suggested that the United Nations should undertake research and other appropriate programmes in this direction; and it was hoped that the next meeting of the United Nations INTOSAI would have the results of such work available as a basic substantive contribution.

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Part two

PAPERS PREPARED FOR THE SEMINAR

VII. THE LIMA DECLARATION OF GUIDELINES ON AUDITING PRECEPTS

Preamble

- Whereas the orderly and efficient use of public funds constitutes one of the essential prerequisites for the proper handling of public finances and the effectiveness of the decisions of the competent authorities,

- whereas, to achieve this objective, it is indispensable that each country have a Supreme Audit Institution whose independence is guaranteed by law;

- whereas such Institutions become even more necessary in view of the fact that the State has expanded its activities into the social and economic sectors and thus operates beyond the limits of the traditional financial framework;

- whereas the specific objectives of auditing, namely, the proper and effective use of public funds; the development of sound financial management; the orderly execution of administrative activities; and the communication of information to public authorities and the public through the publication of objective reports, are necessary for the stability and the development of States in keeping with the goals of the United Nations;

- whereas at the previous international congresses of the Supreme Audit Institutions the Plenary Assemblies adopted resolutions the dissemination of which was approved by all member countries,

The Eleventh Congress of INTOSAI, meeting in Lima, resolves:

- To publish and disseminate the paper entitled "Lima Declaration of Guidelines on Auditing Precepts".

I. General

Section 1. Purpose of audit

(1) The concept and establishment of audit is inherent in public financial administration as the management of public funds represents a trust. Audit is not an end in itself but an indispensable part of a control system whose aim it is to reveal deviations from accepted standards and violations of the principles of legality, efficiency, effectiveness and economy of resource management early enough so as to make it possible to take corrective measures in individual cases, to make accountable parties accept responsibility, to obtain compensation, or to take steps to prevent such violations from recurring or at least to make this more difficult.

Section 2. Pre-audit and post-audit

(1) Pre-audit represents a before the fact type of review of administrative or financial acts; post-audit is audit after the fact.

(2) Effective pre-audit is indispensable for the sound public financial administration of entrusted funds. It may be carried out by a Supreme Audit Institution or by other audit institutions.

(3) Pre-audit by a Supreme Institution has the advantage of being able to prevent detriment before it occurs, but has the disadvantage of creating an excessive amount of work and of blurring responsibility under public law. Post-audit by a Supreme Audit Institution highlights responsibility of the accountable party, may lead to compensation for the damage caused, and may prevent violations from recurring.

(4) It depends on the legal situation and the conditions and requirements of the respective country whether a Supreme Audit Institution carries out pre-audit. Post-audit is an indispensable task of any Supreme Audit Institution regardless of whether or not it also pre-audits.

Section 3. Internal and external audit

(1) Internal audit services are established within individual agencies and institutions, whereas external audit services are not part of the organizational structure of the institutions to be audited. Supreme Audit Institutions are external audit services.

(2) Internal audit services necessarily are subordinate to the head of the agency within which they have been established. Nevertheless they shall be as functionally and organizationally independent as is possible within the respective organizational structure.

(3) In its capacity of an external audit service, the Supreme Audit Institution has the task of examining the effectiveness of the internal audit service. If the internal audit service is judged to be effective, efforts shall be made, without prejudice to the right of the Supreme Audit Institution to carry out an over-all audit, to achieve the most appropriate division or assignment of tasks and co-operation between the Supreme Audit Institution and the internal audit service.

Section 4. Formal audit and performance audit

(1) The traditional task of Supreme Audit Institutions is to audit the legality and regularity of financial management and of accounting.

(2) In addition to this type of audit, the importance and significance of which is undisputed, there is another type of audit which is oriented towards performance, effectiveness, economy and efficiency of public administration. This audit includes not only specific aspects of management, but comprehensive management activities including organization and administrative systems.

(3) The auditing objectives of Supreme Audit Institutions - legality, regularity, efficiency, effectiveness, and economy of financial management - basically are of equal importance; it is left to the Supreme Audit Institution to determine the relative prominence to be given to each.

II. Independence

Section 5. Independence of Supreme Audit Institutions

(1) Supreme Audit Institutions can fulfil their tasks objectively and effectively only if they are independent of the audited entity and are protected against outside influence.

(2) Although state institutions cannot be absolutely independent because they are part of the State as a whole, the Supreme Audit Institutions shall have the functional and organizational independence required to fulfil their tasks.

(3) The establishment of Supreme Audit Institutions and the necessary degree of their independence shall be laid down in the Constitution; details may be set out in legislation. In particular, adequate legal protection by a supreme court shall be guaranteed against any interference with the independence and the auditing authority of the Supreme Audit Institutions.

Section 6. Independence of the members and officials of Supreme Audit Institutions

(1) The independence of Supreme Audit Institutions is inseparably linked to the independence of its members. Members are defined as those persons who have to make the decisions for the Supreme Audit Institution and are answerable for these decisions to third parties, consequently the members of a decision-making collegiate body or the head of a monocratically organized Supreme Audit Institution.

(2) The independence of the members, too, shall be guaranteed by the Constitution. In particular the recall procedures, also to be embodied in the Constitution, may not impair the independence of the members. The method of appointment and recall of members depends on the constitutional structure of the country in question.

(3) With regard to their professional career, the auditors of Supreme Audit Institutions may not be exposed to influences by the audited entities and may not be dependent on such entities.

Section 7. Financial independence of Supreme Audit Institutions

(1) Supreme Audit Institutions shall be provided with the financial means to enable them to fulfil their tasks.

(2) If required, Supreme Audit Institutions shall be entitled to apply directly for the necessary financial means to the public body deciding on the national budget.

(3) Supreme Audit Institutions shall be entitled to use within their own framework of responsibility the funds allotted to them under a separate budget head.

III. Relationship to Parliament, government and administration

Section 8. Relationship to Parliament

The independence of Supreme Audit Institutions guaranteed by the Constitution and by law also entails their having a very high degree of initiative and autonomy, even when they act as an agent of Parliament and undertake audits on its instructions. The relationship between the Supreme Audit Institution and Parliament shall be laid down by the respective national Constitution in accordance with the conditions and requirements of the country concerned.

Section 9. Relationship to government and administration

(1) The Supreme Audit Institution audits the activities of the government, its administrative authorities and any other subordinate institutions. This does not mean, however, that the government is subordinate to the Supreme Audit Institution. In particular, the government bears full and sole responsibility for its acts and omissions and cannot absolve itself by referring to audit operations and to expert opinions of the Supreme Audit Institution unless such expert opinions have been delivered as legally valid and enforceable judgements.

IV. Powers of Supreme Audit Institutions

Section 10. Powers of investigation

(1) Supreme Audit Institutions shall have access to all records and documents relating to financial management and shall be empowered to request orally or in writing from the audited entity any information they deem necessary.

(2) The Supreme Audit Institution shall decide whether it is more expedient to carry out individual audits at the seat of the institution to be audited or at the seat of the Supreme Audit Institution.

(3) Time-limits for furnishing information or submitting documents and other records including final accounts to the Supreme Audit Institution, shall be set in individual cases either by law or by the Supreme Audit Institution.

Section 11. Enforcement of findings of Supreme Audit Institutions

(1) The audited entities shall comment on the findings of the Supreme Audit Institution within a period of time generally established by law or specifically by the Supreme Audit Institution, and shall indicate the measures taken as a result of the audit findings.

(2) To the extent the findings of the Supreme Audit Institution are not delivered in the form of legally valid and enforceable judgements, the Supreme Audit Institution shall be empowered to approach the authority which is competent to take the necessary measures and require the accountable party to accept responsibility.

Section 12. Expert opinions and other powers of collaboration

(1) In important cases, Supreme Audit Institutions may place at the disposal of Parliament and the administration their professional knowledge in the form of expert opinions including comments on proposed laws and other regulations relative

to financial matters. The administrative authorities shall bear the sole responsibility for accepting or rejecting such expert opinions; moreover, this additional task may not anticipate future findings of the Supreme Audit Institution and may not interfere with the effectiveness of its auditing action.

(2) On the other hand, regulations for appropriate and as uniform as possible accounting procedures shall be passed only after agreement with the Supreme Audit Institution.

V. Auditing methods, auditing staff, international exchange of knowledge

Section 13. Auditing methods and procedures

(1) Supreme Audit Institutions shall audit in accordance with a self-determined programme. The rights of certain public bodies to request a certain audit in specific cases shall remain unaffected.

(2) Since an audit can seldom be all-inclusive, Supreme Audit Institutions as a rule will find it necessary to use a sampling approach. The samples, however, shall be selected on the basis of a given model, and they shall be sufficiently numerous to make it possible to judge the quality and regularity of management.

(3) The auditing methods shall always be adapted to the progress of the sciences and techniques relating to management.

(4) It is appropriate to prepare internal auditing manuals as an aid for the auditors.

Section 14. Auditing staff

(1) The members and the auditing staff of Supreme Audit Institutions shall have the qualifications and moral integrity required to carry out their tasks completely.

(2) In recruiting staff for Supreme Audit Institutions, appropriate recognition shall be given to above-average knowledge and capabilities and adequate professional experience.

(3) Maximum attention shall be paid to furthering theoretical and practical professional development of all members and auditing staff of Supreme Audit Institutions, both in-house and at the university and international levels, and such development shall be encouraged by all possible means of a financial and organizational nature. Further development shall go beyond the traditional legal-economic and accounting knowledge and shall include other business management techniques such as electronic data processing.

(4) To ensure auditing staff of excellent quality, salaries shall be commensurate with the special requirements of such employment.

(5) If the auditing staff of a particular Supreme Audit Institution cannot handle specific cases because of the special professional knowledge involved, experts from outside shall be called in.

Section 15. International exchange of knowledge

(1) The international exchange of ideas and experience within the International Organization of Supreme Audit Institutions is an effective means of helping Supreme Audit Institutions to fulfil their tasks.

(2) This purpose has so far been served by congresses, training seminars jointly organized by the United Nations and other institutions, by regional working groups and by the publication of a professional journal.

(3) It is desirable to expand and intensify these efforts and activities. Of prime importance is the development of uniform terminology in public financial audit, on the basis of comparative law.

VI. Reporting

Section 16. Reporting to Parliament and to the public

(1) The Supreme Audit Institution shall be empowered and required by the Constitution to report annually and independently to Parliament or other competent public body on its findings; this report shall be published. This will ensure extensive information and discussion, and create a more favourable climate for enforcing the findings of the Supreme Audit Institution.

(2) The Supreme Audit Institution shall also be empowered to report between annual reports on particularly important and significant findings.

(3) The annual report shall cover all activities of the Supreme Audit Institution; only in the case of interests worthy of protection or protected by law shall the Supreme Audit Institution carefully weigh such interests against the benefits of disclosure.

Section 17. Method of reporting

(1) The reports shall present the facts and their assessment in an objective, clear manner and be limited to essentials. The wording of the reports shall be precise and generally understandable.

(2) The point of view of the audited entities and institutions concerning the findings of Supreme Audit Institutions shall be given due consideration.

VII. Auditing powers of Supreme Audit Institutions

Section 18. Constitutional basis of auditing powers; audit of public financial management

(1) The basic auditing powers of Supreme Audit Institutions shall be embodied in the Constitution; details may be laid down by legislation.

(2) The concrete terms of the auditing powers of Supreme Audit Institutions shall depend on the conditions and requirements of the respective countries.

(3) All public financial management, irrespective of whether and in what

manner it is reflected in the general national budget, shall be subject to audit by Supreme Audit Institutions. Excluding parts of public financial management from the national budget shall not result in these parts being exempted from audit by the Supreme Audit Institution.

(4) By means of their audits, Supreme Audit Institutions should strive for a clearly articulated budget classification and as simple and precise accounting systems as possible.

Section 19. Audit of public authorities and other institutions abroad

As a general principle, public authorities and other institutions established abroad shall also be audited by the Supreme Audit Institution. Audits at the seat of these institutions shall give due consideration to the constraints laid down by international law; in factually justified cases, however, these limitations shall be reduced through the dynamic development of international law.

Section 20. Tax audits

(1) Supreme Audit Institutions shall be empowered to audit the collection of taxes to the maximum possible extent and, in doing so, to examine individual tax files.

(2) Tax audits are primarily audits for legality and regularity; however, when auditing the application of tax laws, Supreme Audit Institutions shall also examine the efficiency and organization of tax collection and the achievement of revenue targets and, if appropriate, shall propose improvements to the legislative body.

Section 21. Public contracts and public works

(1) The considerable funds expended by public authorities on contracts and public works justify a particularly exhaustive audit on the funds used.

(2) Public invitation for tenders is the most suitable procedure for obtaining the most favourable offer in terms of price and quality. Whenever public tenders are not invited, the Supreme Audit Institution shall find out why.

(3) When auditing public works, the Supreme Audit Institution shall encourage the establishment of suitable standards for the continuing administration of such works.

(4) Audits of public works shall be concerned not only with the regularity of payments, but also with the efficiency of construction management and the quality of construction work.

Section 22. Audit of electronic data processing facilities

The extent of the funds expended on electronic data processing facilities also calls for appropriate auditing. Such audits shall be systems-based and shall pay particular attention to planning for requirements; economical use of data processing equipment; use of staff with appropriate expertise, preferably from within the administration of the audited entity; prevention of misuse; and the usefulness of the information produced.

Section 23. Industrial and commercial enterprises with public participation

(1) The expansion of the economic activities of Governments frequently takes the form of enterprises that are established under private law. These enterprises shall also be subject to audit by Supreme Audit Institutions if the Government has a substantial participation in them - particularly where this is majority participation - or exercises a dominating influence.

(2) It is appropriate for such an audit to be carried out as a post-audit; it shall also include economy, efficiency and effectiveness considerations.

(3) Reports on such enterprises to Parliament and to the public shall observe restrictions required for the protection of industrial and trade secrets.

Section 24. Audit of subsidized institutions

(1) Supreme Audit Institutions shall be empowered to audit the use of subsidies granted from public funds.

(2) Should the purpose of the audit require it - especially in cases where the amount of the subsidy, either by itself or in relation to the revenues or the capital situation of the subsidized institution, is particularly high - the audit can be extended to include the entire financial management of the subsidized institution.

(3) Misuse of subsidies shall lead to a requirement for repayment.

Section 25. Audit of international and supranational organizations

(1) International and supranational organizations, whose expenditures are covered by member country contributions, shall require an external, independent audit similar to that of individual countries.

(2) Although this audit shall be adapted to the structure and tasks of the respective organization, it shall be conceived along lines similar to those of the supreme audits of member countries.

(3) To ensure the independence of such an audit, the members of the external audit institution shall be appointed mainly from within the Supreme Audit Institutions.

VIII. ORGANIZATION AUDIT

Ernst Heuer

Summary of the Paper

Investigation of the Organizational Structure (with special reference to the conditions prevailing at ministries)

I. Objectives of an Investigation of the Organizational Structure

Investigations of the organizational structure can become necessary for different reasons. We can differentiate between two main objectives, when putting these in simplified terms:

(1) Economies are to be made with regard to staff members and equipment, in toto or in part. These may be due to real economies that are to be effected or to the setting free of resources which are to be utilized for other purposes that have not been met so far. In this connexion, the investigation of the organizational structure will focus on a clarification of the significance of the work undertaken, on a determination of the necessary scope of work, and, in relation to the latter, on an evaluation of the staff demands.

(2) The efficiency of an authority or of a part of it is to be enhanced. In this connexion, the available potential must be taken as a basis. It cannot be precluded, however, that additional requirements will arise. When evaluating the efficiency, the effects of the work of the authority must also be taken into consideration. Such investigations often take account particularly of sociological and psychological aspects.

Frequently, not only one of these objectives come into play, rather both of the above-mentioned do apply. Actually, the detailed effect will stem from such results (e.g. an improvement of the working procedure will often lead to economies and to an increase in the work output).

When initiating an investigation of the organizational structure in a government department, as a rule you will proceed from the assumption that one of the two objectives is in the foreground. This question should be clarified as early as possible and should be borne in mind throughout the course of the investigation. For example, there is little sense in proposing an organizational structure that will require a number of promotions to superior jobs, if it was the main goal of the investigation to economize on personnel and if there is a general ban on promotions.

Investigations of the organizational structure, as carried out by my institution, i.e. the Federal Court of Audit, generally aim at economizing on personnel or on answering the question, to what extent new staff members are actually required for new projects or how the available labour potential can meet

these requirements. These investigations are based either upon a request by the budget committee of the "Bundestag" (Parliament) or upon the Federal Court of Audit's own initiative. In rare cases these may also go back to a request by the authority which is to be examined.

II. Implementation Procedure for an Investigation of the Organizational Structure

In general, we can differentiate the following phases in an investigation of the organizational structure:

- planning and preparing the investigation;
- establishing the present state of the organizational structure;
- critical evaluation of the present state (analysis);
- elaborating recommendations for the desired state;
- presenting these recommendations and, possibly, assisting in the implementation of the new organizational structure.

These phases need not always be completely separate from one another and follow upon each other in a time sequence. It may happen, in particular, that when evaluating the present state and when elaborating recommendations new and hitherto unknown aspects arise that of needs lead to complementary observations and analyses.

Planning the Investigation

In addition to clarifying the objective of the investigation, as it was mentioned above, it is important for the planning of an investigation to assess the scope and peculiarities of the object of the investigation and to draw up a tailor-made and practicable investigation plan as a consequence. Depending upon the requirements of the investigation and the available potential of investigators, the functions of the individual examiners must be determined (task force of a continuous nature or of a flexible make-up). Also, it must be determined, how the investigation is to be structured (e.g. what facts can be collected by means of questionnaire, interview or personal examination of files). It is essential to allow for a meaningful time schedule that is acceptable for all those concerned (do not plan on too little time, allow for holiday leaves, etc.).

There is a certain link between planning and establishing the present state of an organization, as it is appropriate in the planning stage to draw upon all documents relating to the organizational structure and to evaluate these (e.g. budget plans, work distribution schedules, job instructions, file plans and printed forms). In some cases it may be suitable to engage in small-scale pre-investigations, in order to test the practicability of certain investigation methods. In larger investigations, at least, planning must incorporate the possible results of the other work phases to some extent.

In any case, planning will include a timely and sufficient information of the procedure which will be followed to the authority that is to be investigated. If

possible, technical co-operation during the implementation of the investigation should be settled in an unambiguous manner (officer in charge at the authority under review, in case of larger investigations perhaps a joint co-ordination group).

Establishing the Present State

Questionnaire

As a rule, the most important basis for an investigation of the organizational structure is the questionnaire. Great care must be taken in drawing it up. If possible, it should have been tested in a trial run. Depending upon the given situation, questionnaires with open, closed (standardized) or semi-open questions can be used. A questionnaire with open questions does not only provide for predetermined answer varieties but allows sufficient room for the interviewed person to express his opinion or make a statement. Such questionnaires are more complicated and time-consuming to deal with in an evaluation. Often, however, they will offer indications and hints for better organizational arrangements that might not have been considered otherwise. Also, the staff members, who are affected by the investigation, are motivated in a better sense to accept the investigation and possible changes resulting therefrom.

Questionnaires of the different types are enclosed in Annexes 1, 1a and 2, indicating the differences by way of practical examples. The closed (standardized) questionnaire was used when reviewing the organizational structure of all federal ministries. In that case, an open questionnaire would have required too much time for evaluation. Also, the statements of individuals did not come into play. The other enclosed questionnaires contain mainly semi-open (structured) or open questions. We will have a closer look upon these questionnaires.

It is important that the questionnaires are understood sufficiently by those persons that have to provide the answers (the questions must not be too complicated, and pre-test if necessary!). It has proved useful to discuss the questionnaire with the persons concerned before they are completed. In case of closed questionnaires, which require precise answers, it is recommended to give written explanations including examples (vide Annex 2a). In general, the questionnaire will relate to the smallest separate organizational unit (e.g. the section of a government department). The head of such an organizational unit should be in a position to fill in the questionnaire at his own responsibility. It may be useful to have the administrative department of the authority under review complete complementary additional questionnaires for the different organizational units (vide Annex 1a). In doing so, the administrative aspects and the importance of the organizational unit within the framework of the authority under review can be established at an early point of time. As a matter of fact, in any investigation of the organizational structure, the question should be raised at an early point of time, whether the tasks with which the organizational unit under review is entrusted should be handled by this unit at all or whether it would not be better if another organizational unit were in charge of these. There is little use in finding ways and means to carry out a task in the most appropriate way, if the task is redundant anyway. When investigating a government department, however, it should be borne in mind that an evaluation of the tasks in hand can be the subject of the investigation of the organizational structure to a limited extent only, due to its political character. The questionnaire tries therefore (Annex 1a) to have

the evaluation of the government department made by the department itself, if possible by a relatively objective source.

In many cases it is recommended to ask for an early return of the questionnaires so that those interviewed cannot agree too much on the way in which they will answer the questions. I prefer an adequate period of time which allows the interviewed person ample opportunity to deal with the questionnaire in detail.

The questionnaires are evaluated and the preliminary impression of the present state, obtained in this manner, must be examined with regard to weak spots, so that a further investigation of the present state can take these into special account. This procedure restricts investigations in situ to the absolutely necessary extent. Here again, we observe an interrelation of the different phases of the investigation.

Consultations with Senior Staff Members

Usually, the next step is to have consultations with the senior staff members, i.e. the personnel above the level for which the questionnaires were made available. These do not only serve to corroborate the general impression but also give some essential indications regarding the possibilities and limits of possible changes in the organizational structure. These consultations will be held by the head of the investigation group in person, and he will have to allow ample time for these. The results of the consultations should be laid down in writing and should be communicated to the other reviewers.

Evaluation of Documents and Files

A highly time-consuming but indispensable step in the investigation that helps to determine the present state is an evaluation of all written work material (evaluation of documents and files). This should not be limited to an examination of the incoming and outgoing mail, although this aspect as well may give some highly valuable information (e.g. regarding the delegation of decisions). The work load of the authority under review can be assessed in suitable cases by an accurate random evaluation of the files. Of course, such organization units must be excepted where the work does not at all or only to a limited extent result in written files. Those organizational units are best suited for an evaluation of the files where the type of activity has remained unchanged for a longer period of time. It is essential that the filing system and the handling of files has remained unchanged during the period under review in order to assess the work quantity. Even though the volume of the work may not be determined directly, certain procedures often indicate the work load and therefore should not be forgotten (e.g. frequent orders to present a case again, excessively long comments in the files).

When investigating organizational structures with the goal of specific staff economies, the following must also be taken into consideration: standardized records of the staff members themselves concerning their work, measuring the time required for a task, determining the distribution of the working time by means of observations at intervals/multi-moment statements. When investigating the organizational structure of a government department, in general, standardized records and evaluations of statistics or file numbers will come into play. It is only for the simpler administrative jobs that also occur in government departments,

such as filing and typing, that the various time-measuring techniques may be meaningful. As a rule, key figures are used for these typical work routines which are based upon ergonomic studies.

Interviews

A final information concerning the present state of the authority under review is obtained by means of interviews. This step is very time-consuming and must be restricted to the necessary volume. It is indispensable to prepare these interviews well in order to be able to carry them out efficiently and in a brief span of time. Standardized interview guidelines are used for this purpose, but also to ensure that the individual reviewers arrive at comparable results. These guidelines are similar to the questionnaires and complement them. It should however be avoided that the interviews become too patterned. The interviewed persons must be able to elaborate their answers and opinions in a context. The interviewed persons are those whose responsibility it was to have the questionnaires filled in (e.g. heads of sections), but possibly also subordinate staff members. The results of the interviews should be laid down as quickly as possible in necessary detail (e.g. by means of pocket dictating machines). Taking notes during the interview should be restricted to the absolutely necessary minimum. Examiners in charge of investigations concerning the organizational structure should practise interviewing methods. It is important to avoid leading questions and to phrase questions as simply as possible. Also, the interviewer should listen with interest keeping the interview within the relevant subject-matter.

Critical Evaluation of the Present State (Analysis)

When evaluating critically the present state of an existing organizational structure, the target objectives and the organizational principles that are compulsory for an authority must be taken into consideration. For example, the following applies to a federal ministry of a federal government:

"The ministry consists of departments, the departments consist of sections (subject matter). Sub-departments should be set up only if the subject matter requires so and if at least five sections are grouped together in this connection. Independent bodies, offices, special section, etc. should not be established outside of departments or sub-departments.

"The section is the basic unit in the organizational structure of a ministry. Every job in a ministry must be assigned to a section. If possible, related tasks should be grouped together. It should be avoided that fields of work are split up excessively.

"The structure of the ministry is to be presented in a clear and exhaustive organizational chart (short titles of work spheres of departments, sub-departments and sections). It is the basis for the work distribution schedule and also for the file schedule, whenever this is suitable.

"The work distribution schedule arranges for the distribution of the individual activities among the departments (sub-departments) and sections.

"The schedule divides the work according to subject matter concerned, avoiding overlapping of competences and assigning similar or related subjects to one body only."

When investigating an organizational structure these excessively general organizational principles are specified and complemented by criteria known from the teaching and practical application of organizational forms, which, however, are not generally valid and must therefore be examined with regard to their applicability in each individual case. By the way, this applies also to sociological and psychological aspects, where certain solutions need not necessarily be good or bad in all cases. It is recommended therefore to compile the analytical aspects that must be considered in an investigation in a catalogue of check questions. By the way, such a catalogue, although in a more general form, must also be available when determining the present state of an authority, and in particular when constructing the questionnaire.

These are typical questions for a ministry: size and structure of the basic organization (e.g. of the section, vide Annex 3), means of communication (programme-oriented organization), lines of management and co-ordination, type of activity (division between non-ministerial and ministerial tasks, vide Annex 4), duration of assignment (perhaps also project organization), proportion between subject-oriented work and service tasks (filing, typing, information and documentation centres). In this field, much overlapping can be found, double-track work or insufficient utilization of modern technical equipment.

Elaborating Recommendations

The recommendations must take account of general conditions to a much greater extent than when investigating the organizational structure of a private industry (e.g. legal stipulations and personnel conditions). Also, political considerations come into play when investigating the organizational structure of a ministry. The dictum that recommendations concerning organization should correspond to objective realities and not to existing personnel conditions cannot be applied successfully in connexion with a ministry. Nor can it be the goal of an investigation into the organizational structure to make recommendations that become redundant with the resignation of a minister or of a head of department. A sound compromise should be the main goal. It has proved advantageous to discuss possible recommendations with the relevant senior officers as early as possible. In case of several solutions, the most economical one should be selected. For this purpose, calculations of economies and cost-benefit analyses come into play. Frequently, an evaluation cannot be made in terms of money alone. In such cases it may be useful to contrast the relevant factors after putting them into some order, to weight them and to compare the differences in quality in quantitative terms (problematic approach).

Presenting and Implementing the Recommendations

The results of an investigation into the organizational structure and the relevant recommendations must be summarized in a precise and clear form for those affected by the investigation and, in particular, for those making the decisions. As a rule, a summary will be prepared in addition to the detailed report on the investigation, which will contain the most essential points. Charts and tables as well as statistics should be enclosed in a separate annex. It is recommended for this presentation to integrate the determination of the given state and the critical evaluation (analysis) of a certain organizational unit (e.g. a department), in order to avoid repetition.

In general, it is within the scope of competences of a court of audit in connexion with investigations into the organizational structure to assist in the implementation of the recommendations in a consulting or supervising function. We

feel that this aspect is very important. Frequently, this phase calls for just as much work and energy as the investigation of such. Changes in the organizational structure, which inevitably lead to drawbacks for those affected by them, can best be made when it is ensured that the reviewer co-operates in the decisions. Otherwise it might happen that the authority under review will utilize only the favourable results of an investigation, leaving aside the other established facts. This may also happen quite easily when an investigation of the organizational structure required too much time or when the results are presented in a complicated form.

III. Rough Outline of the Procedure of an Investigation in a Federal Ministry

1. Request by the budget committee of the German "Bundestag" (Parliament) to focus on:

- weak spots in the organizational structure
- separation between ministerial and non-ministerial tasks
- dividing line to tasks of another ministry.

2. Evaluation of documents relating to the organizational structure (in particular organizational charts, work distribution and staff distribution schedules), preliminary analysis of possible problems:

- the organizational structure of a ministry is not within one location
- to some extent the departments are not structured organically (with regard to subject-matters)
- the ministry has an excessively high share of very small sections; some of the staff members work in several sections at the same time.

3. Preparatory consultations with the two relevant ministries and the members of the budget committee of the German "Bundestag" in charge of the two ministries.

4. Preparing and testing of questionnaire.

5. Questionnaire (deadline for return: 1 month).

6. Evaluation of the questionnaire and preparation of the in situ investigation; determining the scope of work of the individual reviewers.

7. Interim report to the members of the budget committee of the German "Bundestag" in charge of the ministries under review.

8. Consultations with the senior officers of the ministry and of the relevant subordinate authorities (2 under-secretaries, 4 heads of department, 4 heads of sub-departments, 1 president) mainly by the leader of the investigation group, or together with his assistant.

9. Evaluation of files (focal points to be taken from questionnaire), mainly by means of prepared catalogues of questions, carried out by the reviewers, at random also by the head of the working group and his assistant (important for the discussion of later recommendations with the senior officers).

10. Statistical evaluations.
11. Examination of incoming and outgoing mail (head of working group and assistant).
12. Interviews with the heads of sections.
13. Evaluation and analysis of the present state.
14. Discussion of the findings with the leading senior officers of the ministries and the subordinate authorities (separate).
15. Elaborating recommendations, discussion with the head of the administrative department of the ministry that is affected mainly and the heads of the subordinate authorities.
16. Drawing up a report, which is sent to the ministries for their opinion, whenever this is called for.
17. Final elaboration of the report, sending it to the budget committee of the German "Bundestag" and the ministries.
18. Participating in the discussions of the report in the budget committee of the German "Bundestag".

ANNEX 1

QUESTIONNAIRE (A)

(please use additional sheets of paper for the answers, if necessary)

Re: Investigation of the Organizational Structure of the Federal Ministry of

1. Name of Section (according to distribution of competences chart):
2. Name of Head of Section and names of other section staff, including official title or remuneration bracket. Please indicate in parentheses the year in which the staff member joined the section.
3. Are the head of section or other staff members engaged in activities outside the section?
If so, where and to what extent?
4. Main aspects of work of the section.*
Please note separately:
 - (a) a percentage-wise estimate for the individual work aspects in relation to the total work volume of the Section:
 - (b) staff members in sole charge of certain work aspects:
 - (c) file numbers that relate exclusively or essentially only to certain work aspects of the Section:
 - (d) indicate peak periods of work aspects, if such are the case (e.g. beginning of calendar year):
5. In carrying out its individual work aspects, is the Section subordinate to different superiors?
6. Main features of type of activities (e.g. mainly written handling of individual cases or evaluation of information, negotiations, elaboration of administrative guidelines, accounting for promotional measures, etc.) If necessary, please indicate these separately for the individual work aspects.
7. Which have been the main changes since 1970?
 - (a) with regard to activities (new tasks, elimination of tasks, considerable increase or decrease in activities, change in quality of work):
 - (b) with regard to activities (in comparison to the activities listed under 6.):

* Aspects of work that make up more than 10 per cent of the activities of a Section. The data given should be based on the present situation and should take into account the experience of about one year, if possible.

8. Is the Section in charge of budget means or does it share in the management of budget means?
Please describe development since 1970, if necessary.
9. Are there any statistics relating directly or indirectly to the scope of work of the Section?
Please enclose the statistics since 1970, if so available.
10. What factors affect the work of the Section?
Please indicate separately by means of key words.
- (a) outside factors (e.g. general developments, laws and other legal regulations that exist, decisions cast by other sections):
 - (b) own initiative (list recent examples in key words, if available)
 - (c) political decisions or departmental objectives, etc.
(please enclose work schedule documentation or similar written material that pertains to the Section, if available).
 - (d) other factors.
11. Are there specific regulations concerning the activities of the Section (e.g. laws or basic administrative stipulations)?
12. Is there frequent co-operation with other sections (please indicate these in detail)?
- (a) in the same government ministry:
 - (b) in other government ministries:
 - (c) others (please indicate in detail the interministry or other bodies where the Section participates):
13. Does the Section make available important information to other authorities on a frequent or continuous basis, or does it receive such information from other authorities?
If necessary, please give further details in key words.
14. Does the co-operation with other authorities and bodies require improvement?
15. Are there any plans for changes concerning the Section? (e.g. in developing work aspects)?
16. Comments and suggestions for improving the organizational structure:

Bonn, _____ 1975
(date)

(signature of Head of Section)

ANNEX 1a

QUESTIONNAIRE (B)

(please use additional sheets of paper for the answers, if necessary)

Re: Investigation of the Organizational Structure of _____

1. Name of Section:
2. Allocated staff size (if possible, please indicate in parentheses the allocated staff size for 1970):
3. Provisions for signing powers within the Section:
4. Comments on the evolution of the Section's organization:
5. What is the importance of the Section for the political work and the main objectives of the
6. Comments on Questionnaire (A):

Bonn, _____ 1975
(date)

(signature)

ANNEX 2

ministry (short name)
organizational unit
(official title)

Deadline 1 October, 1975

QUESTIONNAIRE

(departmental organization)

- Please refer to enclosed guidelines -

Question	Answer*			
1. present staff size	lower junior level	upper junior level	lower senior level	upper senior level
	A13/14-IIa-Ib	A15-Ia	A16/B3-ADO
2. Number of additional staff working in other organizational units of the ministry according to the official distribution of competences schedule	lower junior level	upper junior level	lower senior level	upper senior level
	A13/14-IIa-Ib	A15-Ia	A16/B3-ADO
3. When was the organizational unit set up? (mere change of title, with essentially unchanged activities, is not to be considered)	... prior to 1960 ... prior to 1965 ... prior to 1970 ... after 1970			
4. Were the activities undertaken prior to the establishment of the organizational unit (vide question 3)?	yes	mainly yes	no	mainly no
5. Have there been considerable changes in the scope of activities and the staff size since 1965 or since the establishment of the organizational unit (if later)?	scope of activities		staff size	
	yes	no	yes	no

* Questions 1 and 2: please enter figures in respective field
Questions 3 to 11: please cross respective field or box.

Question	Answer
<p>6. What are the main tasks of the organizational unit?</p> <p>(please use 1974/75 as a basis; several items can also be indicated; vide enclosed guidelines)</p>	<p>... 6.1 a specific legal aspect</p> <p>... 6.2 a specific legal and material aspect</p> <p>... 6.3 a specific material aspect or a specific subject matter</p> <p>... 6.4 in procedural matters without specific material tasks</p> <p>... 6.5 international and/or supra-national matters without independent material competences</p> <p>... 6.6 (material) supervision and other administrative regulations for subordinate bodies</p> <p>... 6.7 internal matters of the ministry, without direct material relation to the tasks of the ministry</p> <p>... 6.8 others (please describe in key words).</p>
<p>7. What activities are the focal points of the work of the organizational unit?</p> <p>(please use 1974/75 as a basis; several items can also be indicated; vide enclosed guidelines)</p> <p><u>possible supplement to 7.2:</u></p> <p>are these activities also in the foreground <u>at present</u>?</p>	<p>... 7.1 handling administrative stipulations</p> <p>... 7.2 preparing or handling one or several major pre-determined projects* (e.g. bills or promotion schemes)</p> <p>... 7.3 continuous collection and evaluation of information (without link to a pre-determined project)</p> <p>... 7.4 contacts and other forms of co-operation with other authorities</p> <p>... 7.5 handling individual cases</p> <p>... 7.6 handling and accounting of different promotion measures</p> <p>... 7.7 other activities (in key words only; indicate only, if of major importance):</p> <p>... yes</p> <p>... no</p>

* This does not refer to non-compulsory projects or projects considered internally only by the organizational unit.

Question	Answer
8. Is there a strict and permanent outline of competences for the staff members of the organizational unit when fulfilling their duties?	... yes (including mainly) ... partially ... no (including minor outline)
9. Does a written work schedule, determined and approved by a superior, apply to the organizational unit at present?	... yes ... no
10. Structure of the filing department of the organizational unit. (without regard to its position in the office hierarchy)	... 10.1 filing with the individual clerk ... 10.2 filing within the organizational unit ... 10.3 filing according to division/subdivision ... 10.4 central filing department, without one specific clerk being in charge of the organizational unit ... 10.5 central filing department, with one specific clerk being in charge of the organizational unit ... 10.6 other forms: (please indicate in key words)
11. Structure of typing requirements. (without regard to the position in the office hierarchy; several items can also be indicated; do not indicate less frequently used structures)	Typing work is done by: ... 11.1 the staff members of the organizational unit ... 11.2 one/several typists serving the organizational unit full or part time ... 11.3 a typing pool, without one specific typist being in charge of the organizational unit ... 11.4 typists of a divisional typing pool ... 11.5 other forms: (please indicate in key words)
12. Has there been an investigation of the organization or work of the organizational unit since 1965 (if so, in what year)?	... yes ... (year) ... no

signature: (please also in capital letters)

Small Sections

In general, small sections having three or less staff members indicate an uneconomic organization. They require increased co-ordination and communication efforts for the superior levels and complicate a meaningful utilization of manpower resources with regard to quality as well as quantity. Frequently, senior officers have to deal with subordinate or auxiliary tasks, or are not employed sufficiently. Junior officers, on the other hand, cannot reach those independent positions, for which they are suited according to their qualifications. In case of temporary work load increases a larger staff is called for, in case of work load reductions such sections often develop slightly exaggerated interests for certain work aspects or over-intensify their material guidance concerning subordinate bodies.

In many cases, the potential of a small section does not suffice to handle important tasks of the ministry. This may be detrimental to matters related to politics, due to the lack of activity on the part of the section.

It may prove to be appropriate to establish a small section in those cases where a specific task must be coped with or shared, whenever the required specialized knowledge limits the scope of activities of a section with regard to type and volume, on the one hand, and, on the other hand, whenever the work load does not justify a larger organizational unit. These considerations may come into play, for example, in case of sections that are restricted to the examination of certain legal questions, or in case of so-called "counterpart" sections, in charge of specific matters within a government department, which would normally be handled by other government departments (vide BT-Drucksache 7/2887; p. 25).

Transfer of Non-Ministerial Tasks to Subordinate Bodies

When examining the question, to what extent additional non-ministerial tasks from sections can be transferred to subordinate bodies, I use the following assumptions as a basis:

(1) In general, non-ministerial tasks are such where the individual procedures are handled mainly

(a) according to available guidelines or tradition as a matter of routine, or

(b) according to technical or accounting aspects, without requiring basic or political decisions.

(2) It may also depend upon the significance, the intentions and the activities of a ministry or the importance of the other participating bodies, to what extent certain processes are of a basic or political nature. Accordingly, certain tasks may have to be classified as ministerial, particularly in case of government departments of a strong political character, which would not be classified as such in another context.

(3) In case of such tasks, however, the importance for the ministry must become specifically manifest in the practical implementation. It does not suffice for a government department to have a general interest in a given scope of work, in order to attribute a ministerial rating to processes as listed under (1). The same applies whenever it is the sole specific interest of government departments to allocate budget funds from a political viewpoint or to deal with an isolated case from time to time. In general, this will not create the need to handle all other isolated non-ministerial processes inside the government department.

(4) Non-ministerial tasks should not be transferred from government departments to subordinate bodies, if this were uneconomical from an over-all viewpoint. This will be the case in particular, whenever such tasks are small in scope or constitute part of coherent processes.

It is important that the sections in charge respect the independent responsibility of the subordinate bodies for their practical work to the greatest possible extent, refraining from checking out their individual work steps.

Also, such an attitude cannot be justified by saying that mistakes have been made and that a close involvement of the government department is provided merely to ensure perfect handling of matters. In many cases these will be nothing but deviating views that do not play a significant part in routine matters. By the way, mistakes may also occur when matters are handled by government departments. Frequently however, these are not noticed, simply because a superior supervising level is absent. Adequate quality in performance by a subordinate body cannot be achieved by a complete check on the part of the government department, which will

- What is the present level of formalization? To what extent are precise descriptions of projects and their implementation available?
- Does it occur that one person holds several jobs at the same time? Are all functions met with adequately?
- When establishing the authority, were the predispositions and qualifications of available personnel taken into consideration? What happens when these office-holders cease to belong to the authority?
- Why does this authority exist at all?
- What is the percentage of routine work?
- How often must decisions of lower echelons be repealed by superior institutions?
- Is there a precise definition of the scope of competences?
- Is it clear what has to be done in case competences are not met or exceeded? (information or delegation to superiors or other staff members)
- Is there a definition of the obligation to initiative?
- Have powers of instruction and signature been arranged in such a manner that heads of authorities can comply with their tasks of delegation and checking in a quantitatively satisfactory way?
- How fast must decisions be cast?* (important for assessing decision-making powers)
- Are different structural criteria applied on the same level?
- Do tasks of equal ranking carry the same weight? - stability?
- Are tasks classified according to their future or their past weight? Is the classification in keeping with their importance?
- Does the classification take account of the qualitative demands put on the head of the authority?
- Is the supervising scope adequate?
 - Is the head in charge of too many staff members?
 - Can the head of an authority meet the different requirements of his subordinates? Is it easy to survey the individual organizational units?
 - Are similar office-holders grouped together?

* What is the significance of the decisions?

- Is the dimension of the individual organizational units in keeping with their significance regarding the over-all goal?
- Is there a clear-defined hierarchy? Does every member know his superior in technical and disciplinary matters? Do staff members know who their superiors are in technical and/or disciplinary matters?
- Are there frequent controversies between subordinate authorities and regular authorities?
- Is there sufficient co-ordination for the subordinate authorities?
- What is the main difficulty in co-ordination?
- What are the objections against a structure based on
 - objects
 - processes
 - time?
- Does the government department deviate from the structural pattern that prevails in other government departments?

CHECK LIST: INFORMATION, COMMUNICATION

- As a rule, do decision-makers dispose of all the information that is necessary within the framework of customary decision-making processes? Is information absent completely or does it arrive too late?
- Is there a clear arrangement for
 - who must be heard prior to a decision
 - who must be informed prior to a decision
 - who must be informed after a decision?
- Where are the broadest channels of information located? Is it advisable to integrate them into one location?
- Are the selected information media in keeping with requirements regarding speed, reliability and safety against manipulation?
- Have the information media been arranged in such a manner that important information can be noticed very quickly?
- Are applicable comparative data used?
- Should tables, charts or graphic descriptions be used?
- Is it possible to have a sufficiently rapid access to stored information? (documentation, files)

- Which reports are superfluous? Who can be eliminated from the distribution list? Are all incoming reports evaluated?
- What partial information is superfluous? Does it suffice to pass on the result without the detailed information?
- How can the take-in of information be accelerated at the receiving end?
- Does it occur occasionally or frequently that orders by superior offices are not implemented correctly?
- Does the head office provide motivating information in addition to back-up information?
- What time is required for a bilateral or multilateral exchange of information?

CHECK LIST: UTILIZATION OF EQUIPMENT

- Is the available equipment utilized fully?
- What work aspects could possibly be transferred to equipment features?
- Is the available equipment suited to carry out the work?
- Do certain equipment parts require to some extent centralization?
- Is there new or particularly reasonable equipment available that would eliminate the constraints emanating from the older equipment?
- What devices can relieve office-holders of routine-jobs?
- What tasks in general can be transferred to equipment?

CHECK LIST: COMPLIANCE WITH TASKS IN THE WORK PROCESS

- Is all work done in the sphere of competence under examination necessary to carry out the over-all tasks?
- Could certain checking jobs, statistics, forms, files, accounts etc. be eliminated?
- Are jobs carried out in a suitable sequence and at the right location, i.e. have work procedures been optimized?
- Are work procedures checked at regular intervals?
- Can routine work be handled more economically by using devices?
- Could typing work be reduced?
- Could stereotype letters, such as e.g. pre-printed answers or short answer letters, be used?

- Is the section under examination provided with adequate equipment (calculating machines, dictating machines, copying machines, other equipment)?
- Is this equipment utilized adequately, wherever its use is recommended?
- Is it ensured that other sections share in the use of equipment that is not used to capacity?
- Is there an optimum lay-out of furniture and equipment, in keeping with working processes?
- Is the equipment handled properly and serviced sufficiently?
- Are equipment parts available that could be returned because they are not used?
- Do the forms used have a suitable design?
- Are forms used wherever it is meaningful?

CHECK LIST: INFORMAL ORGANIZATION

- What informal groups exist?
- Who are the heads of informal groups?
- Where do heads of formal and informal groups split?
- What is the influence of the head of an informal group?
- Do the informal groups work in conformity with the objectives of the authority?
- Which head of an informal group could be put into what position as head of formal group? How can informal relations be accepted formally?
- What is the relationship among different informal groups?
- Are informal relationships triggered off by lacking organizational regulations - such as communicative relations for example?
- Are informal relations utilized on purpose in order to reach formal objectives?
- Which informal groups must be dissolved?

CHECK LIST: CHECKING

- How is the success of a work determined?
 - communication to superior officers

- if so to which?
- voluntary communication?
- requested communication?
- accounting report?
- form of accounting report
 - written
 - oral
 - regular
 - occasional
- scope of accounting report
 - comprehensive on all projects
 - on individual projects
- Is there a check on compliance with working hours and absences?
- Are the results of checking procedures evaluated meaningfully?
- Are there regulations stipulating which checks must be made?

IX. PERFORMANCE AUDIT FOR DEVELOPMENT
 Division of Public Administration
 Technical Co-operation for Development and Finance, Department of
 Secretariat, United Nations
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Some Major Issues for Discussion.

Notwithstanding formidable constraints, Supreme Audit Institutions in developing countries are determined to initiate that performance auditing, also quickly as possible. There is a clear consensus, encompassing the efficiency, termed "comprehensive" or "full-scope" audits as well as the traditional effectiveness and impact of programmes. (The report, "Performance Auditing for post-auditing of expenditures and revenues and the techniques used in applying them.) Development", deals with these concepts the direction performance auditing should take. Among the SAIs there is no getting there in the face of several critical external take. The problem is confronting SAIs and internal issues.

Performance auditing or evaluation is by no means the prerogative of SAIs. Nor should it be. If anything, the following "executive management cluster" of agencies is assuming an increasingly significant role in performance evaluation: the prime minister's or president's office; the cabinet; the planning office; the budget office; and the organization and management or administrative reform office. A central problem is the role and functions of these agencies in performance evaluation, their interrelationships and their relationships with the SAIs and operating agencies. This has brought the following major issues to the fore:

1. Top support: Whatever form the constitutional or legal autonomy of an SAI takes, it will be an empty shell without top government support. Under such circumstances performance auditing will simply not get off the ground especially if there are such barriers as inadequate budgets, resistance to audits, and indifference to audit recommendations. Ultimately cabinets, legislative bodies and ministries will take their cue from the attitude of the chief executive. In response to mounting expenditures and programme and project failures, chief executives are beginning to take aggressive measures to institute performance evaluation capability in their own offices and in central staff agencies. In this connexion they increasingly perceive SAIs as a major unexploited resource which is deployed throughout the country and in a position to monitor the implementation of programmes and projects. How to utilize this resource and relate its activities to those of the "executive management cluster" is a key issue of our day.

2. Planning Office. Relations between SAIs and planning offices may be touchy as performance audits focus on delays and breakdowns in programmes and projects and on the decision-making processes leading to the selection of projects. They can be exacerbated even further if SAIs review the quality of pre-project studies on the assumption that this may result in avoiding unnecessary costs and irreversible courses of action. Quite apart from relations with the planning office, there is a distinct risk of intervening so early in the decision-making process as to make the SAI, in effect, a party to the decision and leave it in the untenable position of auditing its own decisions at a later date. The objective performance audit reports of SAIs can be helpful to planning offices charged with the responsibility of monitoring the implementation of programmes and projects. There should be no inherent conflict between both agencies.

3. Budget Office. The budget document, at least in theory, is one of the yardsticks against which SAIs measure the performance and expenditures of programmes and projects. To the extent that the budget is a programme budget with

an emphasis on specific objectives, targets, outputs and performance indicators of programmes and projects, it will facilitate performance auditing. Budget offices and SAIs would therefore appear to be natural allies in developing performance indicators and relevant cost data regardless of the present state of affairs. Serious attempts to implement programme budgeting would have a beneficial effect on performance evaluation and auditing.

4. Accounting Office. The lack of timely, adequate and comprehensive accounting data impedes the development of performance criteria. While important steps are under way in many countries to improve outmoded accounting systems, the SAI which has a vital stake in the development of cost data does not always participate in the design of new systems.

5. Organization and management and administrative reform offices. Performance audit reports can be invaluable in stimulating management improvement and administrative reform. Regrettably, the working relations between SAIs and central O and M and administrative reform offices appear to be tenuous.

6. Operating agencies. To the extent that operating agencies establish internal audit and O and M units and institute appropriate management controls, they will be in a position to detect administrative failings and take necessary corrective measures without waiting for the intervention of SAIs. However, staff shortages and lack of trained personnel have seriously delayed the establishment of internal audit units. As a result, resident auditors of SAIs often engage in internal audits, usurping what should be an agency prerogative and diverting SAI staffs from performance audits.

7. Government enterprises. In some countries, SAIs do not have the exclusive responsibility of auditing government enterprises. In this respect they are less than supreme despite their potentially useful role of overseeing the performance and financial management of government enterprises.

Internal issues

There are several internal issues SAIs must resolve if performance auditing is to take hold:

In a minority of countries where traditional financial audits by SAIs are late and inadequate, it would be premature to broaden the scope of the audit to provide for performance auditing. The bedrock of external auditing is financial auditing. Yet, despite the progress that has been made, it is distressing to note examples of the lack of basic accounting and auditing skills on the part of auditors especially in field offices of ministries and in local governments. The problem is compounded when agencies are staffed by untrained accountants and bookkeepers. Clearly, the present training programmes in basic bookkeeping, accounting and auditing skills now under way must be intensified.

Beyond basic financial training performance auditing requires a variety of high level, multidisciplinary skills and techniques. On the basis of impressive training programmes now under way in several countries, it would appear that 7 to 10 per cent of total staff time should be invested in such training as part of an over-all long-term training plan. The best programmes target training to meet the individual needs of auditors as reflected in a profile of training needs and

skills for each auditor. Training in seminars and workshops is supplemented by carefully planned on-the-job training.

3. Model performance audits of representative operating programmes, development projects and public enterprises can prove to be invaluable as case materials for training and as standards with regard to audit scope and methodology.

4. So complex are performance audits and so heavy are they in their demands on staff time and capacity that they cannot be left to ad hoc scheduling as the experiences of many countries suggest. An SAI bent on the implementation of performance audits might consider having as a framework medium and long-term plans for the time-phased introduction of components of performance auditing.

5. A related issue is the timing of the introduction of performance auditing. If SAIs wait until their staffs are fully trained, they run the risk of deferring performance auditing indefinitely. A possible compromise may be the use of "minimal" audits pending the staff's capability to engage in "complex" audits. The report outlines the essentials of a "minimal" audit.

6. The recruitment of auditors and analysts with multidisciplinary skills is a prerequisite for performance auditing. The low level of salary scales impedes appropriate staffing in many countries.

7. Considering staff shortages, it appears to be appropriate solely as a temporary measure to establish in SAIs special units that alone engage in performance auditing. In time, organizational barriers may come down with a team approach used in auditing as a form of project or matrix management.

8. The specialized nature of government enterprises calls for a unique kind of expertise in performance auditing and has led to the establishment of separate units in SAIs. At any rate this is the prevailing organizational pattern.

9. Manpower utilization in SAIs seem to be a chronic problem. Too much staff time is spent on internal auditing and pre-auditing that are or should be agency responsibilities. Some SAIs are planning more extensive use of sampling techniques. Substantial blocks of time freed in this fashion could be devoted to performance auditing.

10. Some SAIs have developed internationally recognized audit standards, uniform terminology and manuals. In most countries this appears to be a long, overdue development.

I. Framework of Performance Auditing

1. The role of government in planned development is highlighted by the diversity and complexity of social and economic programmes and capital projects and sharp rises in government expenditures. In addition, government-owned or controlled enterprises are increasingly assuming a dominant role in economic development, accounting in many countries for the greater part of public expenditures. Public enterprises engage in the operation of public utilities such as transport and energy, development banking, public housing, industrial and agricultural production and commercial and trading operations.

2. The accelerated pace of social and economic development has brought in its wake several serious problems now confronting developing countries. With a few exceptions domestic resources have proved to be inadequate, necessitating a heavy resort to foreign borrowing with the concomitant debt repayment burdens. There are serious and costly delays and slippages in implementing projects and programmes in development plans. Unexpected cost-overruns add to the financial burdens of government. Conversely, expenditures may turn out to be far lower than estimated, reflecting unacceptable late starts of programmes and projects. There is evidence of poor management, unwise expenditures, inefficient operations, failure to meet goals and objectives in development plans, and poor utilization of manpower and equipment. Management control is frequently inadequate because of the lack of comprehensive data on cost and performance.

Underlying concepts of performance auditing

3. The response of developing countries to these conditions has been gratifying for the most part. There is a growing resolve to monitor and evaluate continuously the implementation of programmes and projects as a basis for corrective measures. This has resulted in stepped-up performance evaluation. One of the major mechanisms for doing this is the performance audit which is variously termed the "comprehensive" or the "full-scope" audit. In contrast to the traditional audit which deals solely with the appropriateness, propriety, and legality of financial transactions, and which is still the prevailing mode in many Supreme Audit Institutions, the performance audit, while still heavily emphasizing financial auditing, also encompasses the efficiency, effectiveness and impact of programmes and projects. While the next chapter develops these concepts in some detail, it will be useful to define them at least preliminarily at this point.

4. Efficiency. The "efficiency" audit seeks to determine whether an agency is managing and utilizing resources in an economical and efficient manner in order to achieve programme objectives. A basic measure of efficiency is the ratio of resources per unit of output. This can be expressed in terms of man-hours or cost. Conversely, the measure of efficiency can be the ratio of output per unit of input. Some examples are the cost of man-hours of maintaining a kilometre of road, spraying a hectare of land to control malaria, auditing a tax return and processing a customs clearance form. The output measures would of course be the number of kilometres maintained hectares sprayed, returns audited and customs forms processed. The analysis of efficiency focuses on the work done and on the work processes employed. It does not deal with the results achieved, leaving that to the "effectiveness" audit.

5. Related to efficiency and often used synonymously is productivity. However, in several Governments productivity has a somewhat broader meaning and represents a measure of the final outputs of a programme or project and not intermediate ones. For example, one final output of the malaria control programme is the amount of mosquito-free land made available for settlement. The cost or man-hours of the total number of hectares that can be settled is an important measure of productivity. To bring this about there are some essential intermediate outputs such as the amount of land and water sprayed with insecticides, the amount of brush cleared, and the number of hectares of marshes drained. The cost or time of producing each intermediate output would be a measure of efficiency.

6. Effectiveness. Unlike an "efficiency" audit an "effectiveness" audit

centres on the results achieved to determine how well a programme or project is doing. The critical measure of effectiveness is the extent to which a programme or project meets its predetermined objectives in accordance with acceptable standards of quality and cost. For example, among the objectives that may be identified in the course of an effectiveness audit are the kilometres of road to be planned, designed and constructed; the number of primary school children to be taught; and the cotton to be produced because of an expanded irrigation scheme. To the extent that the programme or project achieves these objectives, it is effective. To the extent that it does so at minimal cost, it is cost-effective.

7. At times there is some confusion as to the difference between efficiency and effectiveness. A manpower training programme may be efficient in terms of producing skilled technicians at low cost. However, if there are no existing or planned jobs in specialized fields, the programme is clearly ineffective. Either the programme has not met agreed-upon objectives or the existing objectives are invalid. Another example is the development of a computer-based tax audit programme in a country where some of the business men are illiterate and lack even elementary bookkeeping records. The computerized audit programme may be efficient in that it has the potentiality of screening tax returns at low cost. In practice it is inapplicable to the needs of the country and hence ineffective.

8. Impact. Auditing the impact or outcome of a programme or project is a complex undertaking. This phase of the performance audit seeks to determine the effect of the implementation of the programme or project on the conditions that gave rise to the programme or project in the first place. The programme may be efficient and effective in the sense that it has met the stated objectives. But has it made a difference for the better? Does it represent a significant step forward in fulfilment of the long range goals in the development plan? Has the low-cost housing programme resulted in any appreciable diminution of housing needs? To what extent has the population planning programme affected the birth rate? Has the construction of farm-to-market roads raised the income of farmers? What effect has the maternal-child health programme had on the mortality rate? Where the impact of a programme appears to be questionable, an audit may point up the desirability of redesigning the programme.

Participants in performance auditing and evaluation

9. Performance auditing in the broad sense described here is by no means the prerogative of Supreme Audit Institutions in theory or in practice. The costs, efficiency, effectiveness and impact of programmes and projects are issues of major concern to various agencies including the highest levels of government. The role that each agency plays in performance auditing or evaluation is shaped by a country's institutional, political and legal framework. In varying degrees the "executive management" cluster of agencies plays an especially significant part: the prime minister's office or president's office; the cabinet; the planning office; the budget office; the accounting office; and the organization and management office or comparable agency concerned with administrative reform. In addition, the operating agencies and government enterprises rely on various administrative mechanisms to monitor the performance of their agencies.

10. The Prime Minister's Office. The unequivocal support of a prime minister's or president's office is central to the success of any system of performance auditing and evaluation. Without it any attempts at the analysis of the efficiency,

effectiveness and impact of programmes become a sterile exercise. To be meaningful top support includes fostering the establishment of units engaged in performance auditing, assuring adequate budgetary support, and acting on the findings and recommendations of audit reports. Concerned about the faltering progress and cost overruns of programmes and projects, some prime minister offices have gone further and assumed direct responsibility for monitoring programme and project implementation. This is done by means of special studies, field inspections and manual or automated reporting systems summarizing the status of programmes and projects. Where reports disclose emerging or actual problems, the prime minister's office is in a position to initiate remedial action with a minimum of delay. One of the most highly integrated evaluation systems is in the office of the Prime Minister of Malaysia with responsibility for plan development, continuing evaluation of results, special studies to identify defective policies and procedures, and the development of corrective measures.

11. The Cabinet. Another pattern in use is the establishment of a cabinet committee charged with performance evaluation with a deputy prime minister in charge as in Thailand. Typically, these committees include heads of the planning and budget offices, the Ministry of Finance and several large substantive agencies. For staff work the committee often relies on a working sub-committee composed of subcabinet officers and a secretariat drawn either from the cabinet staff, the planning office or the budget office or including representatives of these offices. The focus of the committee's work in evaluating projects and programmes is on problem identification and "trouble-shooting" either on an ad hoc or continuing basis with the former the prevailing mode of operation. The cabinet committee functions with the obvious support of the prime minister or president.

12. The Planning Office. In many countries, including the Philippines, Brazil and the Sudan, to name but a few, planning offices initiate special studies and require monthly or quarterly reports showing the extent to which development goals, objectives and targets are being met. For the most part the reports deal with investment projects rather than operating programmes and highlight deviations from approved targets and schedules. Where planning offices as in India rely on "rolling" multiyear development plans that are changed annually to reflect changing conditions, they have the opportunity to evaluate the status of projects and programmes, and to recommend changes in objectives, policies, and funding levels. The formulation of annual plans as a basis for budgets also provides a means of assessing the targets, efficiency and results of projects and programmes. This is often a joint planning office - budget office exercise. Where an office combines planning and budgeting functions as in Brazil and Iran, it is in a position to engage in more comprehensive performance audits.

13. The Budget Office. Unless there is a commitment to programme budgeting, as in Turkey, Thailand, Venezuela and Brazil, budget offices engage only in a superficial review of the efficiency and effectiveness of programmes. Such minimal analysis as takes place occurs only when the resource requirements of agencies are considered. For the most part there is no review of investment projects since this is often a responsibility of the planning office. Programme budgeting in theory furnishes a framework for identifying, subprogrammes and activities, developing objectives, formulating measures of performance to evaluate the efficiency and effectiveness of programmes and projects and allocating resources designed to achieve specified results. In practice, several countries, while endorsing programme budgeting, have not fully implemented it and hence lack an adequate basis

for performance evaluation. Nevertheless, and in the face of these weaknesses, their analyses of programmes and projects are more comprehensive than the results of traditional budget office reviews. Where programme budgeting has taken hold, the budget office is actively involved in performance evaluation.

14. The Organization and Management or Administrative Reform Office.

developing countries have established central agencies responsible for management improvement and administrative reforms. Their organizational locations vary. Some are attached to the prime minister's office. Others are part of the budget office or the central personnel agency. A minority are separate agencies within the executive management cluster. Their activities range from routine organizational and methods analysis to management studies and performance evaluations designed to correct the weaknesses of programmes and projects. One of the most effective offices is MAMPU (Modernizing Administration and Manpower Planning Unit) which is located in the Prime Minister's Office in Malaysia and is the spearhead of administrative reform. In Egypt an official of cabinet rank reviews programmes as a basis for administrative reform.

15. The Accounting Office. Performance auditing and evaluation can be futile without timely and accurate data on the costs of projects, programmes and activities. To analyse efficiency, effectiveness and impact it is essential to relate costs to the activities and results of programmes and projects. This cannot be done in many developing countries where the accounting systems do not provide adequate and timely cost data required for performance evaluation. Typically, there are two accounting systems - one in the central accounting office, usually in the Ministry of Finance, and one in the operating agencies. For the most part costs are accumulated by organizational unit, the character and object of expense, and, on an over-all basis, by investment projects. Some countries experience difficulty in gathering even such basic data. There are few cost breakdowns by programmes, activities, and the components of investment projects. Even where programme budgeting is in effect, the accounting system may not provide cost data in accordance with the revised budgetary classifications. Several Governments have moved aggressively to correct these conditions by designing accounting systems that in time may furnish necessary data for development planning, budgeting and performance evaluation.

16. The Operating Agencies and Government Enterprises. Operating agencies and government enterprises have the day-to-day responsibility of designing programmes and projects, implementing them, monitoring their operations, and accounting to the "executive management cluster" for results. To assist them in performance audits and evaluations they, on occasion, rely on internal planning offices, O and M offices and internal audit offices. This is especially true of public enterprises in Latin America. Where internal audit offices are established, they usually review financial transactions continuously to determine compliance with the laws, regulations and budget. Rarely do they monitor operations and projects as an independent instrument of top management to ascertain their efficiency and effectiveness even though performance evaluation is regarded as a major function of such offices. Internal auditors are in short supply and those with skills in performance evaluation are even more scarce. Such internal auditing as exists is often the responsibility of the Supreme Audit Institution which maintains resident auditors in many agencies and some public enterprises, essentially for post-auditing financial transactions. Increasingly, however, the external auditors tend to be uncomfortable about combining internal auditing which should be a management responsibility with post-auditing.

Performance auditing by Supreme Audit Institutions

17. Because of urgency of performance evaluation, the functions of supreme audit institutions (external auditors usually appointed by the head of state and/or legislative body) are gradually undergoing dramatic changes in scope, policies and techniques. In most countries the emphasis is still on the traditional and formal checking of financial transactions for propriety, legality and accuracy, safeguarding resources and certifying expenditure and revenue accounts. Even in this area several countries experience serious delays in audits and often lack timely and accurate data. Despite these obstacles the supreme audit institution is slowly becoming a major tool for evaluating the efficiency, effectiveness and impact of government programmes and projects. There is virtual unanimity on this point among developing and developed countries alike and impressive evidence that the traditional fiscal audit is evolving into a performance audit.

18. Typical of the new look in external auditing is Presidential Decree No. 898 promulgated on 3 March 1976 in the Philippines which specifies the following:

"The Commission on Audit shall develop and implement a comprehensive audit programme which shall encompass an examination of financial transactions, accounts, and reports, including evaluation of compliance with applicable laws and regulations; a review of efficiency and economy in the use of resources; and a review to determine whether desired results have been effectively achieved ..."

19. Similar legislation in Malaysia in 1977 required the Auditor General to determine:

"... whether in his opinion moneys have been applied to the purposes for which they were appropriated or authorized and the activities managed in an efficient manner with due regard for economy or the avoidance of waste and extravagance ..."

20. Encouraged by Parliament's Committee of Public Accounts, the Comptroller and Auditor General of the United Kingdom has extended his examination of accounts to what is termed "value of money" audits. This covers "such matters as economy, efficiency in administration, adequate pricing and charging policies and, where feasible, comparisons of achievements with objectives. The last aspect is regarded as effectiveness audit, which might be defined as assessing the degree of success in meeting policy objectives in relation to the costs incurred." The "value for money" audit has proved to be influential in changing audit policies in various nations in the British Commonwealth including Canada and several African countries. For example, the Controller and Auditor General of Tanzania reports his intention "to introduce the system of appraisal of government activities and projects in terms of performance and effectiveness" as soon as a staff trained in evaluation is available. Even within the limitations of staff resources he has evaluated investment projects included in the Second Five-Year Plan "to make an appraisal of the expenditure incurred on plan schemes in their totality and to provide a means to the Government and the National Assembly to judge the success of the schemes and to spotlight the areas of failure and their causes, where possible."

21. Inevitably the changing role of supreme audit institutions raises questions of their relationship with executive agencies in performance evaluation. There is no inherent conflict in the mission and scope of responsibility of these agencies.

Clearly, the "executive management" cluster must monitor continuously the implementation of programmes and projects and hold operating agencies and government enterprises accountable for results and efficient management. After the event the supreme audit institution conducts an independent and objective audit of the costs and results of operations in behalf of the legislative body and/or the chief executive. The performance audit supplements and does not supplant any performance evaluations undertaken by executive agencies and, potentially, can be an invaluable source of data for a government bent on controlling costs, curbing mismanagement and removing obstacles to the attainment of programme and project objectives.

22. The attitude of governments to supreme audit institutions ranges from firm support for the most part to indifference if not hostility. Where a government falters in its backing of performance audits and ignores audit reports, the supreme audit institutions will remain an impotent organization. On the other hand, some audit bodies apparently prefer an obscure role by engaging solely in routine mechanical and limited fiscal audits.

II. The Components of Performance Auditing

23. With the broad involvement of operating agencies, public enterprises, the "executive management" cluster and supreme audit institutions in performance auditing/evaluation, there is a need for common definitions and an accepted methodology as to what performance auditing is all about. This is not to say that there is "one best way" of engaging in performance auditing. Clearly, one set of techniques will be suitable for operating programmes. Auditing investment and infrastructure projects call for another approach. Still other techniques will be appropriate for public enterprises. The techniques will also vary with the scope of the audit since audits may focus on an entire agency or programmes and projects within the agency or programmes that affect more than one agency.

The Ubiquitous "Objectives"

24. However the techniques of performance auditing may differ, the sine qua non is the clarity of the original objectives of programmes and projects. Fundamentally, performance auditing compares actual results against approved objectives, taking into account cost and efficiency. The objective thus becomes the norm for measurement. In practice the seemingly obvious "objective" can turn out to be disconcertingly elusive. There are also semantical issues as to whether objectives, purposes and goals mean one and the same thing. To dispose of the latter first, purposes and goals which this paper considers to be synonymous are often long range in nature and may or may not be quantified. One purpose or goal might be to make coconut farmers self-sufficient. Another might be to develop a fishing fleet that would catch enough fish to meet specified protein requirements of the country and earn foreign currency through various export schemes. The purposes and goals are generally incorporated in the development plans and are presumably based on explicit studies of needs and demands. To make the programme or project operational it is essential to establish time-phased, quantitative, concrete objectives and targets, the fulfilment of which would lead to the gradual achievement of the long range goals. The objectives should specify expected performance and intended effects in quantitative and qualitative terms so that it will be clear what will be done; for whom; when; how well; how fast; and at what cost.

25. Regrettably, for purposes of administration as well as performance auditing, objectives are often stated in general, vague and indefinite terms and, at times, are not identified at all. This is true of the following formulations: "To eradicate malaria so as to promote population settlements in the northern part of the country"; or "to reduce traffic deaths on newly developed all weather roads"; or "to eliminate illiteracy among adults". Such tenuous statements do not permit evaluation of accomplishments. It would be more meaningful with regard to malaria control to specify that the objective is to reduce the incidence of malaria by 25 per cent in Province A within specified cost limitations so as to permit the settlement in the area of an additional 1,000 families during the next calendar year. To combat illiteracy, the objective might be to eliminate functional illiteracy (defined qualitatively) on the part of all males under 30 in the southern region during the next two years.

26. Over-all objectives of the kind illustrated above relate to an entire programme or project. Since a programme encompasses several activities, it is necessary to develop subobjectives for each activity. For example, malaria control necessitates the spraying of land and water with insecticides, the clearing of brush, laboratory analysis to detect the presence of malaria, public health education, and the distribution of drugs as a preventive measure. The subobjective or target for each of the five activities becomes the basis for programme planning, management and performance evaluation. Thus, with regard to the spraying activity, the subobjective might be the spraying of a specified number of hectares of land and water at proscribed intervals to reduce the mosquito population by some indicated ratio.

27. Rarely do major programmes and projects have but one objective. Usually there are multiple objectives with some of major importance and others subsidiary in nature. The objectives can be complementary or, to the frustration of the administrator, conflicting. In malaria control, there may be three complementary objectives: reduction of the prevalence and incidence of malaria, land settlement, and increased agricultural production in newly settled land. Conceivably, the last objective could be a subsidiary one, at least for several years. A project to generate electricity might be directed at self-sufficiency in operation, widespread distribution of power at low cost, the development of employment opportunities and the economic development of the region. In every case the objectives and subobjectives would be explicit and quantitative. In practice, it may turn out that there is a head-on collision of objectives. The power plant may find that it cannot operate without government subsidies if it is forced to charge low prices that do not cover the cost of operations and amortization of a debt, maintain redundant employees, and distribute electricity to remote parts of a region. The identification and sorting out of the multiple objectives and the analysis of their priority status, complementarity or irreconcilability become an integral part of the performance audit.

28. Where objectives are not specified or are not clear, they can nevertheless be inferred by a searching analysis of the behaviour of the organization. An organization does not stand still. It allocates funds and manpower to programmes and projects. It follows certain administrative systems, routines and workways. It performs various services and turns out miscellaneous outputs. It emphasizes certain policies and minimizes others. The results of its work are evident in some parts of the country and not in others. Taken together this information points to the "operational" objectives of an organization as determined from its actual behaviour. These then become the basis for evaluating its performance. Even where an organization lays out its objectives in clear-cut fashion, there may be a wide gulf between the official objectives and the operational objectives that may not be apparent to policy-makers.

Performance Indicators

29. In evaluating a programme or project, it is necessary to employ a variety of performance indicators. A major one that has been stressed is the measure of the extent of adherence to programme and project objectives and subobjectives. Other related indicators assess the efficiency, productivity, effectiveness and impact of programmes and projects as defined in this report. A fuller treatment of these concepts follows.

summarize data on the units of work processed, the volume of services produced and the time and cost required to produce them for each activity.

33. While essential, mere calculation of the time and cost per output conveys no information about the quality of the activity or furnishes a basis for determining whether the unit time and cost is standard or substandard. Quality can be built into an activity only by specifying in writing the nature of performance expected of employees, for example, the steps, policies and criteria that shall be followed in clearing land or making seeds and fertilizer available to farmers. It can be enforced only by rigorous training and supervision. The absence of criteria of quality invites inefficient operations and should certainly be noted in the course of a performance audit.

34. With regard to developing "standard" unit times and costs, several well-known techniques can be employed. One is to formulate a "historical" standard based on a statistical analysis of past experience. This is probably the most common and least disturbing method of establishing standards in the public sector. A more difficult but precise standard is the "engineered" standard. This is developed by analysing step by step the work processes in each activity, improving them, and in consultation with supervisors and employees, developing standard times for each of the many tasks comprising the activity. The over-all time becomes the standard. It is not fixed for all time but subject to change as policies and procedures change. However the standard unit time or cost is developed, it should be compared with the actual unit time or cost. Where the unit time or cost per output falls below or exceeds the standard, the efficiency of the activity can be readily calculated.

35. A performance audit also covers other major factors bearing on efficiency, especially the use of work schedules for all activities, the method and procedures employed and the extent of manpower and equipment utilization. The work schedule can be a simple bar or Gantt chart or a complex portrayal of a network laying out all operations and showing their interrelationships such as is done through the use of CPM (Critical Path Method) or PERT (Programme and Evaluation Review Techniques). The essential data are the planned and actual beginning and ending dates for all operations comprising an activity and the extent to which the due dates of critical events or "milestones" are met on time. With such information it is possible to identify delays and slippages in programmes and projects, to ferret out the reasons for them and to suggest corrective action.

36. The review of management processes, operating systems, delivery systems and methods and procedures (these terms are synonymous) is not only essential to develop standard times and costs for all operations, as has been proposed, but to simplify and improve existing systems in the interest of efficiency and economy. Among the commonly used tools of analysis are work flow charts, process charts, work distribution charts, form distribution charts, and block diagrams (flow charts used in connexion with automated operations) for existing and proposed operations. Where technical processes are involved as in transport, health, education and power generation, the audit team, using a multidisciplinary approach, may be augmented by specialists in those programmes.

37. Except for capital intensive programmes and projects, manpower costs represent the largest single cost component. To ascertain manpower utilization, a work programme for all operations in an activity should be prepared, as follows:

(1)	(2)	(3)	(4)	(5)	(6)	(7)
Operation	Est. workload volume	Unit of measurement	Man-hours per unit	Man-months needed	No. and type of positions needed	Cost
a						
b						
c						
d						
e						
etc.						

A key measure that determines staffing needs is the man-hours per unit or units per man-hour. Once staffing requirements are developed, they can be compared with present staffing to ascertain staff capacity, utilization and redundancy, if any. Even in operations that are difficult to measure a comparable analysis is useful.

38. A similar approach can be taken with regard to equipment. The rated capacity of equipment to process specified items per hour, validated by empirical experience, can be compared with actual production to determine whether the equipment is operating at, below or over capacity.

Effectiveness

39. For a programme or project to be effective it must achieve its pre-determined objectives at acceptable costs and in accordance with prescribed performance standards. To determine this fact, it may be necessary to use several measures of effectiveness. Some illustrations may be helpful. A programme to raise the income of a specified number of cocoanut farmers encompasses a variety of activities such as extending credit, distributing seedlings, fertilizer and insecticides, and clearing land. In the last analysis, the programme is effective if there is an increase in copra and palm oil production, a rise in the earnings of farmers, and the expeditious marketing of the products. These are the appropriate measures of effectiveness which can be related to cost such as the cost of increasing production by a specified amount or the cost of increasing earnings by a specified ratio. Another example is the job creation programme in several drought-stricken countries. The objective is to maintain the earnings of farmers at indicated levels until the drought is over. Farmers may be temporarily employed in such activities as road repair, the digging of irrigation ditches, and the digging of wells. Some relevant measures of effectiveness are the speed with which farmers are placed in jobs; the cost per placement; the earnings per farmer, the ratio of programme costs to earnings and the monetary value of the work done by farmers.

40. It is also necessary to test the cause and effect relationships in the programme; namely, the assumptions that the investment of planned resources and the production of predetermined outputs at agreed-upon costs will lead to the achievement of the objectives. The fact is that the objectives may be achieved, but this may be due in part to external factors unrelated to the programme. In an earlier discussion of a land settlement programme it was stressed that a major activity was bringing water to the settlement to irrigate newly planted crops. However, the planned water supplies may not materialize. Yet agricultural production meets planned targets because of unexpected rains. Conversely, there

may be undesirable side effects not anticipated in the programme plan. For example, the development of irrigation ditches may lead to the spread of bilharzia, affecting adversely the productivity of farmers.

41. The analysis of effectiveness as part of performance auditing may lead to questioning the validity of the original objectives. With regard to the land settlement example, it may turn out that the quality of the soil had not been adequately analysed and that there is little probability of meeting the agricultural production targets envisaged in the programme. This of course could cast doubt on the entire programme and lead to a search for other alternatives to settle 100,000 families in newly developed land over a 10-year period.

42. In some programmes such as education or law enforcement, it may be difficult to quantify objectives and outputs and hence to develop meaningful measures of effectiveness. From a practical standpoint it may take years to determine the effect of the programme on individuals through time-consuming, costly and possibly inconclusive studies. In education desirable measures may be life earnings of individuals, job mobility, cultural advancement and social adaptability. In law enforcement an ideal but impossible measure would be the number of crimes deterred. From a conceptual standpoint there may be uncertainty as to a causality link between the programme activities and the effect on individuals. The outcome may be influenced by external factors having nothing to do with the programme. In these circumstances there is no choice, but to turn to proxy or substitute measures as a second-best method of passing judgement on programme effectiveness. Thus in education we must settle for narrow but specific objectives such as the number and per cent of students in primary school by age group, student-faculty ratios, estimated attrition rates, estimated test scores, books per student and cost per student. The measures of effectiveness would relate directly to these objectives. In law enforcement objectives may include the deployment of police manpower in high crime areas, an increase in the number of arrests cleared by court action, a reduction in the ratio of crimes in relation to the population, and a lowered recidivism rate for prisoners. Again, the measures of effectiveness would focus directly on these objectives.

Impact

43. Impact analysis is undoubtedly the most complex and difficult aspect of performance auditing. It involves a measurement of the economic and social costs and benefits of a major programme or project over an extended period of time. The objective of the analysis is to identify the results of the programme or project, to determine whether the results are compatible with the long range goals in the development plan, and, where warranted, to recommend other options with a greater promise of achieving goals at lower cost. At every turn the analysis is fraught with difficult conceptual and methodological problems. How can we identify and cost all direct and indirect social and economic benefits? Who are the beneficiaries? In what specific ways do they benefit - higher earnings through income redistribution or greater equity in overcoming social and economic disadvantages? How does one place a monetary value on intangible benefits such as cultural amenities, improved social status, and social stability? To what extent does the programme or project result in unintended benefits? Can they be costed? What undesirable external or "spill-over" effects can be discerned such as water pollution, the prevalence of a variety of diseases, and intensified urbanization? How do we pinpoint all the costs incurred by the programme or project - investment, research and development, one-time, transitional and operating costs? Who pays and in what manner?

44. This type of analysis is applicable to operating programmes and development projects. To use an example of the latter, let us assume that over a 10-year period a dam has been built to control floods and to expand irrigation of crops so that agricultural production can be increased and settlement encouraged in an underdeveloped region. Among the factors to be costed are pre-investment studies, pilot projects, engineering design, land acquisition, the construction of dams, trunk aqueducts and waterways, credits and subsidies to farmers, and the administration and maintenance of the facilities. The primary benefits would appear to be the elimination of damages resulting from floods, increased farm output of crops, cattle, poultry and eggs and increased net earnings for the farmers. Before and after comparisons of the yield and the monetary value of the yield per acre or hectare might point up the effectiveness of the irrigation scheme. Secondary benefits might be evident as well. The project may attract marketing, processing and farm supply facilities. The ground water may be stabilized. Fish and wild-life may thrive and constitute an unexpected resource. There may be important social benefits such as the move of city dwellers to newly developed farm lands and the establishment of schools and medical clinics.

45. On the other hand there may be some negative aspects as well. The very complexity of the project may result in lack of co-ordination among the parts. There may be a lag between the completion of the dam and the waterways. Hence no water will flow to the farmlands. Roads from farms to markets may not be finished on time. Valuable land will be covered by waters impounded behind the dam. The quality of some of the soil of reclaimed land may be unexpectedly poor. Farm income while higher than it had been may not be sufficient to repay the credits advanced by the Government. The effluent from a canning plant may pollute the water.

46. How do we aggregate and cost all such factors, good and bad? A formal procedure is to use cost-benefit analysis techniques developed by economists, recognizing that there is a good deal of controversy about the appropriateness and limitations of this approach. Using cost-benefit analysis we would compare the outputs and benefits of the project, each benefit and negative factor being given a price tag, with the costs of the project over a 10-year period. Thus all factors are reduced to a common basis - monetary value. A ratio of "1" would mean that the benefits and costs are equal. A figure higher than "1" suggests that benefits exceed costs. Conversely, a figure below "1" indicates that the costs are greater than the benefits.

47. A technical problem in cost-benefit analysis is to estimate the present value of future payments and benefits. The assumption is that money in hand today is worth more than money consumed in the future. Hence in the example outlined above, it would be necessary to estimate costs and benefits of the flood control and irrigation project for each of the 10 years. The next step is to convert or "discount" these estimates into present values. There are standard tables for this purpose. However, it is first necessary to determine the appropriate discount rate. Should it be the cost of capital to the Government in national and international money markets? The rate of return on investments in the private sector? The rate of return on riskless securities? The opportunity cost of foregoing other projects? A rate of return that is deemed to be appropriate by the Government, considering all circumstances including monetary policy? This is not a mere technical issue since the rate of return has important policy and political implications. A low interest rate results in lower estimated costs and a higher cost-benefit ratio. A higher interest rate has the reverse effect and may make a project appear to be unattractive.

48. In a performance audit this type of economic analysis should be used with discretion and with a keen appreciation of its uses and abuses. The use of a benefit-cost ratio by itself is simplistic without a full understanding of all the underlying assumptions and benefits. The record is replete with examples of projects where costs have been underestimated and benefits exaggerated to come up with a favourable benefit-cost ratio. So subject are the data to manipulation that the tools of economic analysis can be used to rationalize political decisions. At best quantifying social benefits, some of them intangible, is dependent on a series of assumptions, not all of them tenable. It is difficult to isolate benefits directly attributable to a programme or project from those generated by other factors. The lack of data is a widespread phenomenon and plagues any analysis.

49. What is a performance auditor to make of these problems? A first desirable step would be to do his own benefit-cost analysis and to compare the results with those of the original feasibility study or benefit-cost analysis. This will highlight differing assumptions, values, costing techniques, and findings as to results. It will also indicate whether the original analysts have been cautious in dealing with risks and uncertainty by using tools of systems analysis such as "sensitivity analysis" and tools of statistics such as probability analysis to estimate probable outcomes under varying conditions and alternatives. It will also be up to the performance auditor to indicate preferable alternatives assuming the findings point to that and it is not too late to effect changes in a programme or project. Admittedly it is no light task to question the data leading to a major governmental decision. In some countries institutional constraints may make this impossible.

50. At best benefit-cost analysis should be regarded as a practical aid in problem solving and in making decisions and not a theoretical prescription to determine the best decision. It assists in developing a conceptual framework for arraying various alternatives, estimating the results and costs, developing the assumptions underlying the estimates, laying out "trade-offs" among multiple objectives, summarizing the probable range of consequences, good and bad, spelling out the areas of uncertainty, highlighting the policy issues, and suggesting priorities and preferred alternatives in the light of all the data. There is no magic formula or substitute for this type of rigorous benefit cost evaluation. The rest is up to the decision-makers.

The "Full Scope" Performance Audit

51. What has been sketched is a "full scope" audit which covers not only financial performance, but also the efficiency, effectiveness and impact of programmes and projects. Over-all it determines whether an agency is managing or utilizing resources in an economical, efficient and effective manner in order to achieve programme objectives. It is results-oriented in comparing accomplishments with plans, outputs with objectives, practices with policy and in suggesting ways and means of reaching objectives more economically. Audits of this type require examinations in depth and the use of complex, analytical tools. They are, however, no substitutes for management defaults in an agency. In fact, one of the aims of the audit should be to correct deficiencies in management by suggesting the development of improved planning and decision-making techniques, better management controls, the use of a variety of performance indicators, and more comprehensive management reporting and accounting systems. This may lead the way to continuous monitoring of performance with "feedback" of essential data to agency executives so that corrective measures can be undertaken. This is preferable to suggestions for improvement after the event.

III. Performance Auditing of Development Projects

52. The previous section discussed performance auditing of programmes and projects in general and by way of example referred to the analysis of several projects. This section deals in more detail with development projects in three phases: pre-project studies; design and construction; and operation and maintenance. For illustrative purposes some of the concepts developed here will be applied to a power generation project and a transportation project.

Pre-Project Studies

53. The scope, efficiency, effectiveness and impact of a project will in large part be determined by the pre-project studies that shape the nature of the project. There may be a variety of studies: analysis of needs and demands as part of sectoral and regional studies in the development planning process; benefit-cost analyses that attempt to determine the suitability of a project in the first place, to develop options, and to provide a basis for assigning priorities to projects or parts of projects; feasibility studies that deal with the technical and economic feasibility of mounting a project that will satisfy projected needs and meet the goals of the development plan; and fiscal studies with regard to alternate ways and means of financing the project. These studies are a vital part of the decision-making process.

54. For the most part auditors are shut out of the pre-project study phase although they may routinely review contracts for any bills paid to local and foreign consultants. Once the project is underway or complete auditors may have access to most of the documents and reports. By that time the damage may have been done with sunk costs accumulated and the project set on an irreversible course. This issue is delicate with political overtones in view of the apparent intrusion of auditors into governmental decisions if they are involved in a review of pre-project studies. Furthermore, there is a distinct danger that audit responsibilities may be compromised. Auditors involved in the decision-making stage may find it difficult to remain objective in a post-audit. In effect, they would be auditing their own judgements in the pre-project phase.

55. Despite the seeming advantages of early review by external auditors of pre-project studies, on balance, it appears to be prudent to forego this activity. On the other hand, assuming circumstances are favourable, there should be no hesitation in calling attention in performance audits to flaws in pre-project studies as a guide for future action. In addition, the top management of agencies should be encouraged to strengthen their internal capability in project analysis, internal auditing and organization and management.

56. Once a decision is made to go ahead with a development project, the next significant step is to translate needs into specifications for a school, government building, hospital, road, power plant or dam. In the case of buildings this is termed "facility planning". In the case of other projects, it may be called the "functional programme". Facility planning and functional programming take place or should take place before architects and engineers are retained to

design the project. The facility plan encompasses the following: estimating space needs for patients, students, employees etc. on the basis of accepted standards; determining the amount of usable space and gross space (usable space plus corridors, stairs, elevators etc.) in square metres or yards; specifying the technical use of space; laying out the relationships of the space areas to meet operating requirements; specifying materials and equipment and their performance characteristics; estimating costs for construction and equipment and adjusting for inflationary factors; developing "life cycle" costs composed of initial, maintenance, supporting and recurring costs over the life of the project; and estimating the fiscal impact of the project on the recurrent budget. A functional programme for a road or other non-building projects would be prepared along similar lines. The specifications for the road include estimated traffic density by type of traffic; the capacity of the road to handle vehicles of different weights; the materials required for an all-weather road; safety characteristics etc. The facility plans and functional programmes become the basis for specifications that are sent to interested engineers, architects and contractors. They also serve as the baseline for evaluating contracts and the construction of projects.

57. In the contractual or tendering phase of a project the external auditors can play a vital role. In addition to the usual checks to determine whether the contract award complies with financial laws and regulations and budgetary allocations, the auditors should compare the contract with the feasibility studies or benefit-cost analysis that led to the project, the facility plans, functional programmes, specifications and cost estimates. The emphasis in this review should be on the conformity of the contract with the objectives, scope, specifications and cost estimates of the project. Any significant deviations should be cited and followed-up. Wherever possible, auditors should also review the preliminary designs and schematics of architects and engineers to determine compatibility with agreed-upon specifications. This may have the advantage of heading off problems that otherwise may appear during the construction phase. This type of review is an essential part of performance auditing although agencies may be reluctant to have auditors participate in the preliminary design stage.

58. The key to the implementation of a project within time and cost constraints is the preparation of a comprehensive, time-phased work plan that schedules every phase of the project: site selection; land acquisition; preparation of preliminary and final architectural and engineering drawings; selection and purchase of materials and equipment; hiring of necessary manpower; land clearance; availability of water and utilities; construction; and funding of work in progress. For each task in the schedule there should be specific targets and beginning and ending dates. The schedules which should be in Gantt or network (CPM, or PERT) format, should also include such milestones as completion of site selection, completion of drawings, completion of stages of construction and other key events. Finally, a management reporting system should be developed to show progress and costs in each phase of the project in relation to the schedule and estimates. This will be essential for internal control as well as external auditing.

Design and Construction

59. Currently external auditors are making a significant contribution in facilitating the implementation of development plans by monitoring the design and construction of development projects. As an irreducible minimum, the performance audit should take place on a continuing basis and include the following:

- a. Variance analysis of the progress and cost of the project in relation to the targets in the comprehensive work plan and schedule.
- b. Testing the amount and quality of construction to determine compliance with the plans and specifications.
- c. Determining the reasons for work slippages and other delays.
- d. Accounting for change orders that run up costs.
- e. Checking the availability of manpower, equipment and materials in accordance with the predetermined schedule.
- f. Identifying design extravagance and other forms of waste.
- g. Certifying with the aid of specialists that the work is being carried out properly or improperly.
- h. Spotting bottlenecks and examples of poor co-ordination such as erratic flows of equipment and materials, and hiring staff before the equipment is available
- i. Comparing actual costs with cost estimates.
- j. Checking the pace of expenditures and accounting for shortfalls that may reflect delays in the project and cost overruns that may indicate unnecessary changes in the project.
- k. Checking internal controls such as schedules for project management, management reporting, and cost accounting.
- l. Determining the productivity of manpower.
- m. Ascertaining whether the project will have the capacity to meet its original objectives.

60. In conducting a comprehensive performance audit of plan implementation, external auditors can serve as the eyes and ears of the government. They represent an invaluable resource which in most countries has not been utilized effectively.

Auditing the Maintenance and Operation of Completed Development Projects

61. Performance auditing of ongoing projects centres on efficiency, effectiveness and impact along the lines discussed in the previous section. For each project there should be a set of performance indicators to measure adherence to long-range goals and short-term objectives in relation to costs incurred and to appraise the efficiency and effectiveness of activities and operations. Internal controls in the project should include management reporting and cost accounting systems to provide necessary data for performance evaluation. Failure to meet operating objectives and targets should be spotted. Substandard and inefficient activities should be identified. Conflicting objectives and policies should be analysed. Findings of this nature together with proposed corrective measures should be reported and followed up. The approach outlined here is followed in large part by the Audit Council of Thailand as will be noted from the accompanying checklist for the auditing of development projects.

Performance Auditing a Power Generating Plant

62. A performance audit of a power generating plant would cover the items and issues noted below in the three stages of the evolution of the plant: pre-project studies, design and construction, and operation and maintenance.

63. Pre-project Studies

a. The justification of the project on the basis of a benefit-cost analysis and feasibility studies. Rationale methodology, and validity of forecasts of costs and benefits.

b. Projection of needs and demands by region.

c. Explicit multiple goals and objectives of the plant and the extent to which they conflict. Priorities and functions.

d. Effects of the use of different fuels on the estimated rate of return on the investment.

e. Methods of financing.

f. Estimated inputs over the life of the project, e.g., labour costs, fuel and general administrative expenses.

g. Estimated energy outputs over the life of the project. Values.

h. Pricing policy.

Appendix A

The Audit Council of Thailand

Summary of Project Evaluation Programme

1. Objectives

1.1 To evaluate the project design

- 1.1.1 Financial aspect
- 1.1.2 Economic aspect
- 1.1.3 Financial aspect
- 1.1.4 Organization and administration aspect

1.2 To evaluate the project progress

- 1.2.1 Comparison of planned and actual inputs
- 1.2.2 Comparison of planned and actual outputs
- 1.2.3 Evaluation of efficiency, economy, and effectiveness in carrying out activities

1.3 To evaluate the project benefits

- 1.3.1 Comparison of planned and actual benefits

2. Basis for Selection of Projects to be Evaluated

2.1 Priority of projects to be evaluated

- 2.1.1 Development and conservation of economic and environmental resources
- 2.1.2 Promoting income distribution and raising productivity in rural areas
- 2.1.3 Industrial development
- 2.1.4 Exports, imports and tourist promotion
- 2.1.5 Regional urban centres and Bangkok metropolitan rehabilitation
- 2.1.6 Distribution of infrastructure services
- 2.1.7 Distribution of social services

2.2 Inclusion

- 2.2.1 Quality of project design
- 2.2.2 Quality of project administration

3. Framework of Evaluation Programme for Project Progress and Benefits

Variances

	<u>Planned</u>	<u>Actual</u>	<u>Favourable</u>	<u>Unfavourable</u>	<u>Causes</u>	<u>Recommendations</u>
A Inputs						
B Outputs						
C Costs						
D Benefits						

4. Framework of Data Compilation Programme

4.1 Planned data

	<u>Required data</u>	<u>Sources</u>	<u>Compilation Procedures</u>
A Inputs			
B Outputs			
C Costs			
D Benefits			

4.2 Actual data

	<u>Required data</u>	<u>Sources</u>	<u>Compilation Procedures</u>
A Inputs			
B Outputs			
C Costs			
D Benefits			

5. Current Year Evaluation Programmes

5.1 Projects financed by loans

5.2 Projects financed by government budget

i. Long range plans for specific capital improvements (power generating stations, distribution systems). Capacity to meet growth rate.

j. Nature of facility planning. Specifications and estimated costs.

k. Contingency planning for disruptions in service.

l. Related projects and secondary effects: roads, bridges, stream development, fish and wildlife preserves, generation of jobs.

6. Design and Construction

a. Time-phased schedule for the design and construction of the power generating station, for hydroelectric power and transmission lines and cables. Targets and beginning and ending date for each task.

b. Schedule showing timing of estimated receipts and expenditures.

c. Delay factors: late approval of project by government; delays in site planning, land acquisition, manpower recruitment; arrival of transformers and underground cables; shortage of imported materials.

d. Extent of adherence to work and cost schedule and original cost estimates; reasons for deviation.

e. Number and cost of change orders.

f. Estimated loss of revenue because of delays.

g. Quality control over construction and materials.

h. Compliance with engineering schematics and drawings.

65. Operation and Maintenance of Plant

a. Overall: size, rate of growth, mix of fuels used, type of generating equipment, power production in kilowatt hours, age and quality of plant, source of funds, revenues, capital and operating expenditures, extent of surplus or deficit and reasons for it, rate of return on capital used.

b. Annual objectives, targets and priorities. Validity and extent of adherence.

c. Performance indicators:

(1) Customers served and annual coverage kWh per customer.

(2) Customers per square kilometre and kWh per square kilometre.

(3) Square kilometres covered and not covered.

(4) Reliability. Percent of total annual hours in operating condition.

(5) Extent of voluntary and involuntary 'outages' (power failures) and reasons.

(6) Peak, low and average use.

(7) Fuel economy (BTU's per kWh generated).

(8) Promptness in installing metres and preventing interruptions in service to customers.

(9) Response time in handling complaints, billing customers, installing new equipment.

(10) Extent of accidents and causes.

(11) Performance standards (unit cost and time) for engineers, technicians, clerks and labourers.

d. Internal control

- (1) Methods of reviewing recurrent and capital budgets.
- (2) Use of work programmes.
- (3) Management reporting, work measurement, and cost accounting systems to measure adherence to performance standards, targets and objectives.
- (4) Specific cost reduction projects.

e. Management improvement

- (1) Use of project management.
- (2) Nature and extent of systems planning and improvements.
- (3) Supervisory training.
- (4) Use of work planning and scheduling techniques, e.g. scheduling and dispatching work crews.
- (5) Manpower and equipment utilization in relation to capacity.
- (6) Use of O and M studies.

f. Materials management

Performance Auditing in Transportation

56. In evaluating the planning, design, construction and maintenance of a highway, a performance audit would cover the following issues and problems, inter alia, in the several stages of the audit:

a. Pre-project studies

- (1) The adequacy of cost-benefit analysis and feasibility studies in projecting traffic needs, dealing with the special problems of urban traffic, emphasizing the social and economic benefits of obtaining access to remote areas to facilitate regional development, and weighing the desirability of improving farm to market roads.
- (2) The quantitative and non-quantitative factors that determine investment needs and affect priorities in road-building.
- (3) Analysis of the social and economic "trade-offs" in deciding whether to build a new road or resurface and improve the capacity of existing roads.
- (4) "Sufficiency" ratings of present roads in accordance with accepted engineering standards to determine their capacity to handle current and projected traffic and to set up a programme for the gradual improvement of the present road network.

- (5) The quality of traffic studies.
- (6) Preliminary engineering drawings, design standards, and estimated unit and over-all costs.
- (7) Final specifications and cost estimates.
- (8) Quality controls for materials and construction.
- (9) The results of soils test and their effect on engineering design and costs.

b. Design and construction

- (1) Evaluation of site planning and land acquisition.
- (2) Conformity of detailed engineering designs with the specifications.
- (3) Comparison of construction contracts with specifications, performance standards, and estimated costs.
- (4) Variance analysis in the course of the construction: projected time and actual time, projected physical progress and actual progress, projected costs and actual costs, performance standards and actual experience. Reasons for deviations, slippages, delays, cost overruns, and inferior quality of work and materials (based on quality control involving frequent tests).
- (5) Unforeseen terrain and construction problems and their impact on time and cost.
- (6) The justification for design changes and the fiscal and timing implications.
- (7) The justification for revision of work plans.
- (8) Inventory and control of materials.
- (9) Pacing and control of expenditures.
- (10) Identifying delays in payment that hold up the project.

c. Operation and Maintenance of Highways

- (1) Performance standards and standard costs for highway maintenance activities: roadway surfaces, shoulders and side approaches, drainage, roadside, bridges and other major structures, controlling effects of heavy rains, sandstorms and other hazards, traffic services, emergency and extraordinary maintenance, supporting administrative services and betterment to improve road capacity.
- (2) Unit time and cost standards for operations comprising activities.

- (3) Comparison of standards and actual experience with regard to costs of labour, equipment, material and contractual services.
- (4) Internal controls: work measurement systems, cost accounting systems, work programmes with targets for all operations, work schedules.
- (5) Basis for budgeting for recurrent and development budget for all activities and operations: work programme in work units, man-days, and objects of expenditures (labour, equipment, materials, contractual services). Utility in variance analysis.
- (6) Methods of developing and enforcing performance standards and quality control for each operation.
- (7) Methods of determining work programme and priority in road maintenance. Use of road classification and "sufficiency rating" system.

IV. Performance Auditing of Public Enterprises

67. Performance auditing of public enterprises poses a set of unusual and complex problems because of the varying legal nature of the enterprises, the degree of autonomy, their involvement in virtually every phase of a nation's economic life, the expectation in most cases that the over-all measure of their effectiveness is not necessarily profitability alone but the extent to which they fulfil national goals and objectives, and the evident inefficiency of the enterprises in several countries.* Depending on the economic system of a country public enterprises may engage in utility functions such as transportation, water supply irrigation and power generation, heavy and light manufacturing, trade, marketing, and banking. In their legal structure they may be autonomous adjuncts of ministries, corporations entirely owned by the government, or mixed corporations in which government holds the majority of shares and the private sector the rest. Arrangements for external audit vary. In most countries the supreme audit institution audits public enterprises just as it audits government agencies. Typically a separate organizational unit in the audit agency has this responsibility. Several countries have established special audit agencies to oversee public enterprises. In other countries private chartered or certified accountants may be used.

68. In several countries external auditors limit themselves to a verification of assets and liabilities and the balance sheets showing income, expenditure and net profit. This reflects the fact that the auditors may not be qualified to evaluate the efficiency and the effectiveness of the enterprise or they are prevented from doing so. While no definitive data are available, this does not appear to be the case in most countries where a "full scope" audit is expected with the auditor reviewing the finances as well as the performance of public enterprises. Among the financial and economic issues dealt with in addition to those cited above are the capital structure, the long-term debt, the debt service, cash flow and cash management, working capital, the return on the government's investment, the profitability of the enterprise, and the disposition of surplus for expansion of the enterprise, enhancement of the government's revenue, and investment in development projects. The auditors examine the financial results in terms of their contribution to social and economic development.

* Several publications of the United Nations (Division of Public Administration Finance) deal with the auditing and performance of public enterprises. The Handbook on Government Auditing in Developing Countries (ST/ESA/SER.E/8, New York, 1977) describes the scope of a performance audit in pp. 49-57. For a comprehensive treatment of public enterprises see Organization, Management and Supervision of Public Enterprises in Developing Countries (ST/TAO/M/65, New York, 1974). For ways and means of strengthening public enterprises see Measures for Improving Performance of Public Enterprises in Developing Countries (ST/TAO/M/58, New York, 1973). The complex issues of funding public enterprises are dealt with in Financing of Public Enterprises in Developing Countries: Coordination, Forms and Sources (ST/ESA/SER.E/7, New York, 1976).

69. Profitability, maximizing returns on capital investment and surplus generation may not be the sole criteria of the effectiveness of an enterprise. A government may prize other social and economic values such as keeping prices artificially low as a form of income redistribution; stimulating employment by maintaining redundant employees in the enterprise; giving indigenous people preference in employment even at the expense of losing skilled individuals; regional development with limited prospects of profit; and the use of high priced domestic raw materials for import substitution. The effect might be to wipe out profits and surpluses. In the course of a performance audit it is up to the auditor to sort out these policies and to determine whether they represent a deliberate pursuit of predetermined goals or a set of conflicting goals of which the government is unaware.

70. The performance audit must necessarily display sensitivity to the social and economic framework of the country by determining the compatibility of the policies of the enterprise with national goals and priorities with regard to foreign exchange earnings; the use of advanced technology; the timing of borrowing in relation to over-all borrowing by the government; wage policies; development of skills in the work force; job creation; the setting of high prices by monopolies (in effect an excise tax); import substitution; development of medical, welfare and educational facilities; the location of enterprises to stimulate regional development; income distribution; and capital formation. Within this framework it is essential to examine the basis for investment decisions such as building a manufacturing plant. A review of feasibility studies and cost benefit analyses may raise questions about the validity of estimates of needs and demands and lead to the conclusion that other alternatives might have been superior to the investment decision, considering the goals of the government.

71. In assessing the efficiency of the enterprise, the performance audit must necessarily, among other things, compare explicit and implicit production and sales targets and schedules with actual outputs and the timeliness of the outputs, standard unit time and costs with actual times and costs, planned consumption of raw materials with actual consumption and estimated rejects of inferior manufactured items with actual rejects. There should be evidence that a functional budget specifying operations, tasks and costs is used as a basis of control and that backup management reporting and cost accounting systems provide the necessary data for control. The capacity of equipment and manpower should be compared with actual utilization. Unless as a matter of national policy labor intensive production techniques are encouraged, the performance audit should determine whether improvements in technology are essential. Overall the breakeven cost of operations should be ascertained as a basis for improving the profit margin within existing constraints.

72. Internal audit is central to the day-to-day control of public enterprises, as is recognized in most Latin American countries. Where the audit deals primarily with financial transactions as is customary in most countries, performance audits will undoubtedly recommend strengthening it so that it can monitor the efficiency and effectiveness of operations. To do this it will be necessary to develop management controls of the type discussed above. It may also become clear in the course of a performance audit that there are serious backlogs and delays, time-consuming and inefficient operations, high fixed costs, a defective and top-heavy organization lacking the capacity to manage the enterprise, and sloppy property and supply management. Quite apart from audit recommendations to correct these conditions, it may be desirable to make the internal audit unit or a separate organization and management unit responsible for a continuing review of system, procedures and organization. The performance audit should also evaluate the usefulness of existing management development and training programmes and propose desirable changes.

V. Institutional Arrangements for Performance Auditing

The Traditional Role of Supreme Auditing Institutions

73. Despite the universal commitment of supreme audit institutions to performance auditing and the notable advances that have been made to achieve it, their traditional and still predominant role is the continuing audit of financial transactions of operating agencies, development projects, and, where permitted, of public enterprises. This function is essential for purposes of control and accountability and will and should persist albeit within a wider framework of comprehensive auditing of the efficiency, effectiveness, and impact of programme and projects. In a minority of countries, the performance of this basic function is lamentably weak and, in the face of official indifference, continues to erode. There are instances of staff shortages with poor coverage of agencies. The staff may lack a basic knowledge of auditing and accounting skills with the result that auditing is fairly rudimentary in nature. The required annual certification of expenditures and revenues often takes place many months after the end of the fiscal year. At times the external audit office cannot control this since agency accounts may be incomplete even three or four years after the end of the fiscal year to which they relate. As a result, a fair description of several audit offices would note the frantic pace of trying to catch up with the past. The problem is compounded if a parliamentary body or a prime minister's or president's office ignores the audit reports and shows no inclination to follow-up the findings and recommendations.

74. Fortunately, in most countries the technical capability of audit offices in accounting and auditing continues to grow as graduates of university schools of business administration are recruited and as significant training programmes are mounted. These improvements may not be marked by corresponding changes in operating agencies where accounting and auditing skills, especially in field offices, are patently limited. Consequently, the traditional practice of maintaining resident auditors in the operating agencies often persists with the external auditors still performing pre-audit functions such as reviewing allocations from appropriations, comparing staffing with approved complements of employees and checking purchase orders and contracts. Such internal auditing as exists may be performed by external auditors despite the fact that it should be a prerogative of top management of the agency. Wherever possible, the supreme audit institution is backing away from pre-audit and internal audit because of the heavy demands on staff time that could more profitably be devoted to performance audits.

Effect of New Developments in Performance Auditing

75. The traditional audit is slowly evolving into a comprehensive "full scope", performance audit with a strong development orientation in the face of occasional constraints and, at times, an inhospitable environment. That several external audit offices have made noteworthy progress is evident from the fact that their reports meet international standards and are accepted by the World Bank and other international, regional and national development banks. The requirements of performance auditing which necessitates a multidisciplinary approach are altering the composition of audit staffs. The strengthened and professionalized audit staffs are being augmented by economists, management specialists, experts in public

administration, architects, engineers, lawyers and specialists in manufacturing, agricultural and commercial processes.

76. While it is difficult to generalize about the organizational structure of supreme audit institutions, it is clear that their broadened responsibilities have resulted in organizational changes designed to facilitate performance auditing. There is a tendency to establish separate units for auditing operating agencies, development projects, public enterprises and local authorities and, in addition, to set up a special unit for performance auditing. With an over-all commitment to performance auditing, it may appear to be contradictory to concentrate this function in organizational unit when all audits should be performance audits. However, the present organizational development reflects the still tentative and experimental nature of performance auditing and the scarcity of multidisciplinary skills. In time, all audits will encompass an evaluation of the efficiency, effectiveness and impact of programmes and projects as well as the legality, regularity and accuracy of financial accounts of expenditures and revenues. Even now some external audit offices are attempting to break down organizational barriers by setting up ad hoc teams composed of auditors, specialists in performance auditing and other professionals to conduct comprehensive audits. At the end of the audit the team members return to their respective units. This is a variant of project or matrix management which utilizes the full resources of the audit agency to meet specific audit objectives.

77. Most external audit offices have constitutional and legal autonomy although in some cases there is no specific statutory authority to conduct performance audits. In practice this can be an empty shell if governments do not support adequate budgets for audit offices, resent performance audits and remain indifferent to audit reports. To put it bluntly, external audit offices will be no better than the political climate permits them to be. There is no question that a performance audit can raise politically explosive issues when it evaluates the efficiency, effectiveness and impact of programmes, projects and public enterprises. Tension is inevitable if an audit office criticizes the soundness of investment decisions, questions the validity of programme objectives, and monitors the implementation of development projects. Whether the tension is creative or destructive depends on the relationships with the legislative body, the chief executive, the central planning body, the central budget office, the central accounting office, the operating agencies and public enterprises.

Relationships with the Legislative Body and Chief Executives

78. How a legislative body (if one is in existence) reacts to audit reports is determined by its relative power, stability and continuity. Yet, constitutionally, the external audit office may be a creature of the legislature. In some countries the legislative bodies receive reports mechanically without any further consideration. In other countries including Turkey, Kenya, Malaysia, Colombia and Tanzania, to cite but a few examples, reports submitted by the Court of Accounts or the Controller and Auditor General may be analysed carefully and become occasions for sharp interrogations of the government. In the last analysis the legislature takes its cue from the president's office or the prime minister's office. If the chief executive appreciates the utility of performance audits as a tool for development, the legislative body will adopt similar attitudes. In the face of mounting expenditures, indifferent success in meeting development targets and commitments to decentralization, chief executives are beginning to take aggressive measures to monitor the implementation of programmes and development projects so

that necessary corrective action can be taken in time. As noted, they have done this by instituting monitoring mechanisms in their own offices or relying on existing central staff agencies such as the planning office or the budget office.

79. An encouraging development in recent years has been the recognition by prime ministers and presidents that supreme audit institutions are not a threat, but can, in fact, supplement their own efforts to oversee programmes and projects and to hold agencies and public enterprises accountable for results. Increasingly, the chief executives view the external auditors as a major unexploited resource deployed throughout a country to provide continuing and reliable data on the performance of programmes and projects. There is evidence that on occasion reports command their attention and that on occasion, they take the initiative in proposing audits. The "feedback" from audit reports influence changes in the development plan, the annual plan and the budget.

Relationships with Planning Offices

80. In virtually all developing countries planning offices also recognize that one of the most serious problems is failure of plan implementation. In Latin America, ILPES which is part of the Economic Commission for Latin America is taking the lead in proposing improvements in operations planning and plan implementation. Planning offices are revising their internal processes to provide for an ongoing scrutiny of the implementation of programmes and development projects and an evaluation of results. At times monitoring and evaluation take place in co-operation with the prime minister's office and the budget office. While audit reports have proved to be helpful, there is little evidence on the whole of a close working relationship between the planning office and the external audit office. An audit report on performance may be critical of ill-conceived programmes and projects and of the planning and decision-making processes that generate them, thus exacerbating relationships between the two agencies. In time, planning offices may learn to rise above bureaucratic concerns and to welcome rigorous and objective audits of performance, providing the audit office has the technical competence to undertake them. As a minimum, the planning office should look to the audit office for continuous information on the status of projects throughout the country. This will be particularly important if the planning office, as is true in many countries, is also responsible for preparing and administering the investment budget.

Relationships with Central Budget Offices

81. Seemingly, budget offices and supreme audit institutions are natural allies. The budget document is one of the yardsticks against which the external audit office measures the expenditures and performance of operating programmes and development projects. To the extent that the budget is a programme budget and specifies objectives, targets, outputs and performance indicators, it facilitates performance audits. However, a programme budget, while desirable, is not essential to the conduct of performance audits. Well executed audit reports provide invaluable information for budget formulation and implementation. If a budget office has the additional responsibilities of management improvement and programme evaluation, audit reports can prove to be helpful by identifying problem areas. Both offices have a common interest in developing cost data and performance measures as a basis for determining the efficiency and effectiveness of programmes. In some countries the similarity of some of their functions leads to unwarranted bureaucratic competition without recognition of the fact that the perspectives of both offices differ. However, in several countries there are signs of a closer working

relationship and attempts to set up interagency committees including the planning, budget, audit and accounting offices to deal with common problems of developing performance indicators, evaluation techniques, and cost data.

82. There is a global consensus that inadequate cost and accounting data and outmoded accounting systems limit the usefulness of performance audits in view of the difficult task of linking costs and performance. As a result, central staff offices, operating agencies, and supreme audit institutions usually lack comprehensive and timely cost data classified by programme, activity, project, organization unit and character and object of expense. They recognize that the lack of such data seriously handicaps planning, budgeting and auditing in general and the development of performance criteria in particular. Aware of these deficiencies central accounting offices are beginning to modernize and automate their accounting systems and, in some countries, have initiated impressive changes. This is a welcome and insufficiently recognized development. Regrettably, the external audit office does not in every case participate in the design of new accounting systems. To get around this problem the accounting project now under way in Turkey may be something of a model. The Ministry of Finance which is responsible for central accounting has invited the Court of Accounts to serve on a high level advisory committee that is guiding the development of a new accounting system.

Relationships with Operating Agencies

83. Operating agencies tend to regard external audits as a threat just as they do oversight by the budget office or the office of the chief executive. This is understandable, but a necessary part of a system of accountability. The problems would be minimized in part if the traditional departments had their own internal controls over performance and financial management, thus making it possible to detect and correct their own weaknesses in operations before intervention by an outside group. In this connexion there is an urgent need for strong staff groups in an agency to assist top management in planning, implementing, controlling and evaluating programmes and projects. Several countries recognize that priority should be given to the establishment of internal audit offices that would be a staff arm of top management and not an appendage of the external audit office.

84. Properly conceived, the internal audit office would be an independent organizational unit that would report directly to top management and be responsible for the continuing monitoring of accounting practices, records and financial transactions; the appraisal of operations and procedures to determine compliance with agency plans, policies and standards; the ongoing evaluation of the efficiency and effectiveness of programmes and projects; the development and use of financial and operating controls and performance standards; the design of work measurement and other management reporting systems; and the development and utilization of cost accounting systems.

85. External audit offices welcome and encourage this development and would gladly shed such responsibility for internal audits as they have. To the extent that internal auditors keep on top of the multiplicity and variety of fiscal and management transactions, they would lighten the task of external auditors and, in theory, avoid unnecessary duplication between the two groups. A persisting difficulty has been the acute shortage of trained auditors with the result that few agencies in most developing countries have their own independent internal audit units. Where these units exist, they appear to concentrate for the most part on financial transactions and rarely concern themselves with management controls and

the quality of performance. This situation underscores the formidable task the developing countries face in educating, training and placing internal and external auditors with the capacity to engage in meaningful financial and performance audits.

86. Another important development has been the establishment of organization and methods units in a few large agencies in various countries. Like the internal audit units they usually report directly to the head of the agency. They have continuing responsibility for the improvement of procedures, organization and staffing and for collaboration with any central O and M agencies. Internal audit and O and M units can exist side by side without conflict or duplication. In the course of monitoring operations the internal audit unit is in a position to identify deficiencies in organization and methods. These can be referred to the O and M unit for analysis and the development of improvements.

Relationships with Public Enterprises

87. This paper has stressed that supreme audit institutions do not have the exclusive responsibility of auditing public enterprises and that in a minority of countries special agencies or chartered accountants assume this role. To this extent the external audit office is less than supreme. In auditing public enterprises, the external audit offices recognize that there are similarities as well as differences in the modalities, approaches and techniques used to audit traditional departments and those employed in auditing public enterprises. In general, many of the techniques used to evaluate the efficiency, effectiveness and impact of operating programmes and development projects apply to public enterprises as well, for example in analysing production, work schedules, unit costs, plant capacity, equipment and manpower utilization. However, as has been noted, there are also unique features that merit a special approach: the growing number of enterprises and their dominance in the economies of many countries; the diversity of their functions; the multiple objectives that make it difficult to appraise the effectiveness of enterprises solely on the basis of pricing, profitability, export earnings and net return on investment; differences in their corporate structure and legal status; the use of commercial-type accounting practices; and the highly specialized nature of these operations that cover manufacturing, trading, marketing, banking, agricultural production and utility services. For each of these processes comprehensive audits must be based on custom-tailored performance indicators. Furthermore, many public enterprises have their own internal audit units that monitor mainly financial transactions.

88. Because of these factors the external audit agencies tend to establish separate organizational units that specialize in auditing public enterprises. On occasion these units are assisted by performance audit units and units that audit development projects. Several supreme audit institutions have developed "public enterprise units" that enjoy an international reputation for the quality of their work. Especially prominent among them are the public enterprise units in Thailand, Ecuador and in the Philippines. In the latter country the unit has developed criteria of performance to evaluate the effectiveness of its own audits of public enterprises.

VI. Summary of Major Issues, Problems and Ways and Means of Strengthening Performance Auditing for Development

89. Any objective assessment of the current "state of the art" of performance auditing for development must find grounds for optimism. This is not to minimize the many major issues and problems which exist and which this paper has emphasized. On the other hand, the supreme audit institutions recognize the problems and are taking energetic steps to cope with them, often in the face of difficult odds. For the most part they are clear as to their short- and long-term objectives and as to the means of achieving them. In no small measure they have benefited from the work of INTOSAI (International Organization of Supreme Audit Institutions), regional auditing organizations in Latin America, Africa, Western Asia, and Asia, and interregional seminars sponsored by the United Nations and INTOSAI.

Major Issues and Problems

90. As a basis for future action, it may be helpful to recapitulate the following major issues and problems stressed in this report:

a. Strengthening traditional fiscal auditing. The bedrock of external auditing is financial auditing. Unless it is strengthened and backlogs eliminated, it will be difficult to broaden the scope of the audit to provide for performance auditing.

b. Post audit of pre-project studies. This is a delicate issue since it seems to suggest second guessing of executive decisions to initiate development projects. The focus in the audit should be on the quality and accuracy of feasibility studies, cost benefit analyses, facility planning, functional programming, and preliminary schematics and engineering drawings to determine whether they constitute an adequate rationale for the project or whether other alternatives are preferable from a cost-benefit or cost-effectiveness standpoint.

c. Monitoring implementation of programmes and projects. The external audit office has the resources to perform this necessary function. It is up to chief executives and planning offices to decide whether they wish to utilize a potentially invaluable resource.

d. Establishing internal audit offices in operating agencies and public enterprises. This major step cannot be left to happenstance. There is a need for a time-phased plan to establish these offices as independent management arms of the heads of agencies and public enterprises. In the process it will be essential for external audit offices to shed such internal audit responsibilities as they have.

e. Strengthening and expanding performance audits by making them multidisciplinary in nature. There are noteworthy beginnings in developing countries, but the pace of recruiting professionals in various fields should clearly accelerate.

f. Using a project management or matrix management approach in organizing external audit offices for performance auditing. At the outset, considering staff shortages, it appears to be appropriate to establish special units that alone engage in performance audits. In time, artificial organizational barriers should come down and a team approach used in performance audits, drawing on the staff as needed for ad hoc purposes from all units in the external audit office. More advanced audit offices are resorting increasingly to this type of project or matrix management.

g. External audits of all public enterprises. While supreme audit institutions generally have responsibility for audits of public enterprises, this is not true in all countries. Related issues are the need to strengthen the capability of the external audit offices to engage in performance audits of public enterprises and, to do this, the necessity of establishing specialized units completely familiar with the diversity and complexity of public enterprises. This might be a desirable exception to a project management approach although a specialized staff could be augmented by professional staff members from other units.

h. Autonomy of external audit offices. Constitutional and legal autonomy can be meaningless without adequate budgets and staffs and a determination on the part of governments to take action on audit reports. While the legal framework and institutional arrangements vary among countries, it seems clear that comprehensive and helpful audit reports may gain external audit offices the political support they need on the theory that nothing succeeds like success. Some audit offices lack statutory authority to engage in performance auditing. This omission needs correction.

i. Participation with planning and budget offices in developing performance indicators and management reporting systems. The measures and techniques employed by external audit offices to appraise the efficiency, effectiveness and impact of operating programmes and development projects are precisely those required by planning and budget offices as well. The joint development of these measures together with management reporting systems that apply them would appear to be a necessary step.

j. Accelerated development of programme budgeting to facilitate performance auditing. The case for programme budgeting can be argued on its own merits. It is not a prerequisite for performance auditing. There is no question, however, that it can facilitate and improve the quality of performance auditing.

k. Improvement of accounting systems. Accurate and timely cost data classified, inter alia, by programme, activity and project are essential for performance auditing. While many developing countries are improving their accounting systems, there is little evidence, with but a few exceptions, of the participation of external audit offices in this development.

l. Training requirements for performance auditing. Performance auditing encompasses a variety of skills and techniques discussed in this report. There is an obvious commitment of external audit offices to training in performance audit techniques as well as in basic financial auditing and accounting. Several impressive training programmes are under way. However, taken together they represent no more than a promising start.

m. Freeing time for performance audits. To the extent that external audit offices extricate themselves from pre-audit and internal audit responsibilities, they will free impressive blocks of time for performance auditing. Other measures under consideration are the more extensive use of sampling techniques and the training of ministry accountants in central office and field installations and in local authorities. Depending on the governmental structure, the latter would be a responsibility of the Ministry of Finance and/or the Minister of Interior.

n. Role of performance audits in administrative reform. Among other things performance audits centre on the efficiency of systems and procedures and organizational structures. The findings and recommendations in such audits can be invaluable in facilitating administrative reform. This argues for a close working relationship between external audit offices and other agencies charged with the responsibility of spearheading administrative reform.

o. Role of performance audits in decentralization schemes. Among many developing countries there is a clear commitment to the decentralization of programmes. At the same time there is a good deal of perplexity as to how to achieve this goal. With external auditors deployed throughout all regions of a country, there would appear to be a built-in device for keeping governments continuously informed of the efficiency and effectiveness of decentralized programmes.

p. Development of internationally recognized audit standards, uniform terminology and manuals. Some impressive work has been done in a few countries. This is a long, overdue development for most countries.

Ways and means of strengthening performance auditing for development

91. The summary of major issues and problems suggests by implication many of the steps that should be taken to improve performance auditing for development. In some cases, the summary advances specific proposals. Supplementing and in some respects elaborating on these suggestions, the following is a list in priority order of ways and means of strengthening performance auditing as perceived by many developing countries:

a. Five-year plan for improvement of performance auditing. Every external audit office should develop a plan responsive to the problems and issues outlined above. The ambitious plan formulated by the Philippines Commission on Audit incorporates goals and objectives that should be reached by the year 2000. The Auditor General in Malaysia is developing a five-year plan.

b. Phased, extensive training programmes. The programmes should cover at least a five-year period and should include training in programme and project analysis techniques, cost-effectiveness analysis, cost-benefit analysis, management analysis, management and cost accounting, variance analysis, programme and performance budgeting, statistics, management science, public enterprise accounting and auditing, network analysis, planning methodology and relevant data processing techniques. This list is by no means exhaustive. At a minimum 7 to 10 per cent of staff time should be allocated to training.

c. Employee training profiles. The training needs of all auditors should be inventoried and custom-tailored and, individual training programmes developed.

d. On-the-job training. This is a "must" and should be deliberately coupled with training seminars and workshops.

e. Development of model performance audits. Model performance audits, with the aid of external experts if necessary, should be conducted of representative operating programmes, development projects and public enterprises. The audits should provide case materials for training programmes and should serve as standards with regard to audit scope and methodology.

f. Accelerated implementation of performance audits. External audit offices should not delay the implementation of performance audits regardless of the level of competence of their staffs. Performance audits can range from the minimal to the complex. Even a minimal performance audit can be helpful if it covers compliance with the goals, objectives and targets in the development plans and budgets; the agency management control system; agency capacity to establish objectives, work programmes, performance indicators and management reporting systems; significant organizational and operating problems; and manpower and equipment utilization. The minimal performance audit will point both the external audit office and the operating agency in the right direction. Under the best of circumstances audits will vary in scope depending on the problems and capability of the external auditors.

g. Strengthening of basic accounting skills. The emphasis on performance auditing should not obscure the weakness in accounting skills at all levels in most countries. This problem should be solved jointly by the ministry of finance and the supreme audit institution.

h. Development of standards, manuals and uniform terminology. Mentioned above, this is most essential for improved performance and training on the job.

i. Expanded and strengthened staffing. The role of external auditors in development should be recognized by significant staff increases, recruitment of auditors and analysts with multidisciplinary skills and salary levels that will attract outstanding individuals.

j. Follow-up of audit reports. The annual reports of supreme audit institutions should specify the extent to which their recommendations have been implemented.

k. Improved accounting systems. Already mentioned, they provide the data base for analysis.

l. Authority for performance audits. Any doubts as to the authority of supreme audit institutions to engage in performance audits should be resolved by appropriate legislation or decrees.

m. Internal audit systems. As proposed there should be a complete installation of such systems in traditional departments and public enterprises within a five-year period.

X. STATE AUDIT OF PUBLIC ENTERPRISES

State Comptroller's Office, Israel

The term "public enterprises" refers to economic units linked to government whether central, regional or local - by ties of ownership and control. The term "enterprises" stresses that these are units which supply goods and services for money. In this respect they may be distinguished from other units of the governmental system, whose operations are financed from general government revenues.

A. THE TASKS OF PUBLIC ENTERPRISES

There is no limit to the areas in which public enterprises may operate. Their scope in practice will depend on the economic and social doctrines prevalent in each State, on historical developments, and on pragmatic considerations of economic, and social policy in each State. In States with socialist régimes public enterprises are spread over most sectors of the national economy, whereas in States with a free-enterprise or mixed system, they operate only in certain sectors of the economy, sometimes as monopolies, and sometimes alongside (and even competing with) other enterprises which may be privately-owned or may be owned by voluntary public bodies such as trade unions.

However, ideological motives are by no means the only reason for which public enterprises have been set up. In fact, companies fully or partially owned by the government are found today in most countries of the world, though the motives for setting them up, their areas of operation, their legal status, their organizational set up and their relative importance differ from place to place. The appearance of government companies as one of the most important economic and organizational implements of government is one of the conspicuous signs of the continual increase of government intervention in economic and social activity that we have witnessed during the last few decades in most developed and developing countries.

A research paper of the United Nations* on problems of public administration in developing countries, details a number of aims which in the view of the Governments of such countries make it essential to set up government companies, as follows:

To accelerate national development.

To increase productivity and employment and raise the standard of living.

To provide sources of credit to finance industrial and agricultural production and trade.

To provide basic services as a foundation for industrial growth, in the public utilities such as power, water, transportation and communications.

* United Nations Department of Economic and Social Affairs - A Handbook of Public Administration, Current Concepts and Practice with Special Reference to Developing Countries (ST/TAO/M/16), N.Y. 1961, p. 72.

To reduce dependence on foreign capital and management by the purchase of foreign-owned enterprises.

To render a needed service which is unprofitable under strictly private operation.

As a matter of national policy to ensure government control of certain sectors of the economy.

More recently, in a special survey on public enterprises, the Economist* established the following economically more sophisticated clarification "any government-owned and/or controlled business selling goods and services to the public on a large scale".

Ira Sharkansky distinguishes in addition to public corporations the so-called "Marginal Institutions",** those bodies at the far reaches of governmental organization charts, and out of the direct line of control from legislatures, chief executives, and key staff agencies.

In general it would seem that it is possible to distinguish two main groups among the motives which have led to the development of the phenomenon of setting up government companies: ideological/political motives (particularly the spread of socialist doctrines, on the one hand, and the new concept of the State's task as a welfare State in democratic régimes, on the other); and economic motives.

Another reason for setting up government companies - and a common one, too - is when there is no other choice. In times of severe economic crisis Governments are forced to acquire existing undertakings or to give them massive injections of funds in order to prevent chain reactions and escalation of the crisis.

B. ORGANIZATIONAL FORMS

The most convenient classification of public enterprises is by legal status, and three main types may be distinguished:

1. Enterprises with no separate legal identity. These are units with limited economic independence within the administrative structure of central, regional or local government;
2. Enterprises with separate legal identity, which operate in accordance with special legislation, which defines their areas of operation and their status as State enterprises (such enterprises we call "public corporations").
3. Enterprises with a separate legal identity, which were set up and operate under general legislation of the State regarding commercial companies. The

* The Economist, 3 December 1978, "The State in the Market".

** Control at the Margins of Government, The State Comptroller and Public Corporations of Israel, in Geist, B. ed. State Audit, Developments in Public Accountability, a book to be published in honour of Dr. I. Nebenzahl, The State Comptroller of Israel; Macmillan, forthcoming.

government may have exclusive ownership rights in the enterprise or may share ownership with other partners.

ENTERPRISES WITH NO SEPARATE LEGAL IDENTITY

Such enterprises are integrated into the administrative organization of central, regional or local government. Their budgeting, accounting and auditing are therefore based on the arrangements adopted for all governmental units. Often employees of such enterprises are defined as government employees, and consequently subject to the same conditions of employment.

ENTERPRISES WITH SEPARATE LEGAL IDENTITY BASED ON SPECIAL LEGISLATION

Public commercial enterprises of this sort are a relatively modern phenomenon, which developed mainly in the present century. This organizational form constitutes an attempt to meet the need for increasing government intervention in the national economy for the purpose of speeding up development or bringing about structural changes in the economy, or resulting from the necessity to keep the economy operating in war time and periods of crisis.

Despite the many differences between bodies of this sort in various States, it is possible to point to a number of features common to most public corporations:

- .. They are created by special legislation which defines their powers and their rights, their managerial institutions, and usually the relationship between the enterprise and the government.

- .. They are wholly owned by the State.

- .. Since they possess separate legal identity, such enterprises enjoy a large measure of freedom with regard to choice methods of running their affairs, in contrast to the enterprises described in the previous section. This freedom extends mainly to the following areas - contracts with suppliers and customers, purchase and sale of assets, employment of staff and their remuneration. Such enterprises are not usually bound by the budgetary, accounting and other regulations and arrangements to which the direct financial and economic operations of the administration are subject.

- .. The financing of such an enterprise is not included in the budgets of normal State activities, apart from supplying the basic investment, and providing funds to cover deficits if this be necessary. The enterprise finances itself from selling its services, and may borrow from the government, and in some cases also from the general public, and get credit from banking institutions. In many cases the enterprise is empowered to decide what to do with its profits.

- .. Responsibility for running these enterprises is delegated to boards whose membership, form of appointment and term of office are defined in the laws creating the enterprises. Sometimes these boards include representatives of the enterprise's employees and its consumers, and members of the legislature. In certain cases a director-general is appointed with direct responsibility to the government, and alongside him a board operates in an advisory capacity.

ENTERPRISES WITH SEPARATE LEGAL IDENTITY, INCORPORATED UNDER GENERAL COMPANY LAW

The only difference between this sort of public commercial enterprise and privately-owned companies is that the State, a regional or local authority is a shareholder or member.

Sometimes such enterprises are set up at the initiative of the governmental unit concerned, and in other cases the unit becomes involved in an already-existing company either by buying shares from other shareholders or by buying shares issued specially for it.

* * *

Considering that the main difference between public and private commercial enterprises is that the chief purpose of the former is not to make profits but to perform a task, regarded by the government as of public importance, by commercial operating methods (national fiscal monopolies such as exist in several States are an exception to this rule); it follows that any assessment of the organizational forms of public enterprise should be based on their suitability to the performance of this task and the measure in which they ensure proper public supervision of the operations of these enterprises.

THE CONTROL OF PUBLIC ENTERPRISES

Parliamentary, Budgetary and Centralized Executive Control

The expansion of government intervention in the economy for the various purposes mentioned above, and the adoption of the various types of public enterprises as instruments by the government in order to carry out this activity, have posed a fundamental dilemma: the public resources invested in these bodies are immense, and would seem to necessitate strict public control: on the other hand these new forms of governmental activity were, among others, adopted in order to avoid the constricting effects of the strict administrative framework of normal government activity. The trend today would seem to be towards more control of public enterprises, though some of the arguments against this have undoubted force.

* * *

PARLIAMENTARY SUPERVISION

There can be few who would challenge the necessity for control or who would doubt that in the parliamentary democracies ultimate accountability must be to, and ultimate supervision in the hands of, Parliament, which represents the public in this context in a dual capacity: as taxpayer, concerned with the efficient and profitable or, at least, thrifty application of public funds, and as consumer, concerned with the quality of the goods or services provided and their price.

A first condition for such an efficient exercise of parliamentary supervision of public enterprise to Parliament is the availability of information.

MINISTERIAL RESPONSIBILITY

Generally speaking, and in principle, parliamentary supervision is founded in the parliamentary democracies on the doctrines of ministerial responsibility. That is to say, the public enterprises, being to a greater or lesser degree autonomous entities, are not directly controlled or supervised by Parliament, but, as

Herbert Morrison, one of the fathers of nationalization in Great Britain has said, "are accountable to Parliament through Ministers, on matters for which Ministers are themselves responsible".⁴ On the whole, the greater the measure of ministerial control exercised in practice or permitted by law - that is to say, in particular, control based on formal, statutory powers, as opposed to informal and often unpublicized pressures and influences, sometimes critically referred to in England as "lunch-table directives" or "old-boy techniques" - the greater the opportunities for parliamentary comment on, and criticism of the operations and activities of the public enterprises themselves and of ministerial control thereof.

SUPERVISION BY PARLIAMENTARY COMMITTEES

In most States the main debate of State audit reports on public enterprises takes place in parliamentary committees, and only exceptional items will be dealt with in full session. By providing such parliamentary committees with accurate information and well-based recommendations regarding the operations of public enterprises, the work of supreme audit institutions in this, as in other areas, is a central means for ensuring effective parliamentary supervision of the operations of the executive.

BUDGETARY CONTROL

Some degree of budgetary control of public enterprise, direct or indirect, is an almost universal phenomenon, but the range of control and the details of budgetary treatment vary quite widely, not only from country to country, but also within each country. Moreover, modifications in the existing patterns of control are made from time to time. Indeed the one generalization that can be made is the very absence of a generalized pattern of budgetary control.

Schematically one may distinguish between two extremes: those departmental enterprises that are completely integrated into the State budget and other types of public enterprise that have been granted complete autonomy from the State budget. In practice, however, total integration and total autonomy are either non-existent or very rare.

Regardless of the organizational framework of the public enterprise, the basic problem has been to grant the bureau, agency or corporation the degree of autonomy and flexibility deemed essential to effective management of the enterprise and at the same time maintain such degree of a priori control of its financial operations as the State has determined to be essential in each case, in view of the purposes for which the enterprise was established and the public funds invested in it.

For one thing, budgetary control is designed to be a priori control. When total outlay and/or net losses are in fact greater than those approved by the budget and these are then indiscriminately met by grants from the State budget and loans from the Treasury, the effectiveness of a priori control is undermined. In this context inflation has been a complicating factor.

⁴ Quoted by H. Seidman in. Organizational Relationships and the Control of Public Enterprise. See United Nations Department of Economic and Social Affairs, Organization and Administration of Public Enterprises, Selected Papers, N.Y. 1968 (E/CN.4/1968/3), pp. 156-166.

Even when losses cannot be concealed, budgetary control may be evaded in various ways; for example, by setting up a holding company in the framework of which the deficits of a losing enterprise will be offset by the profits of other public enterprises in related fields.

CENTRALIZED EXECUTIVE CONTROL

In a small number of countries an attempt has been made to improve executive, and also public, control over public commercial enterprises, by going beyond the traditional organizational framework, in which a particular public enterprise is the exclusive responsibility of a particular minister and ministry, and setting up a central government department with more or less wide responsibilities as regards all (or most) of the public enterprises in the country concerned.

* * *

STATE AUDIT AND INTERNAL AND EXTERNAL AUDIT

The extension of State audit to public corporations and government companies has its problems. It is reasonable that such bodies are set up outside the normal budgetary framework in order to give them more flexibility and wider possibilities of action than ministries have. There is room for concern whether the demands of State audit and the publicity it involves may not prove an undesirable restriction on the freedom of action of these bodies, and even actually cause them a commercial loss. Another important question is the propriety of State audit of bodies in which others, presumably impelled only by the profit motive, have a holding. Nevertheless, the principle of the unity of State audit, and the need to ensure public accountability for all activities of the State, including those carried out by the agency of public enterprises, outweigh these conditions. For otherwise, in the words of the recommendation of the Fifth Congress of INTOSAI:

"(the conduct of these activities) ... outside the scope of the safeguards provided for by the application of general financial legislation, and the consequent dispersion and weakening of control, might entail grave dangers to public finance."

Moreover, with the expansion of government activity a gap has developed between the broad range of tasks laid on supreme audit institutions and the increasing number of bodies subject to their audit, and the manpower available to them to perform these functions.

In view of this dilemma State audit has developed working methods aimed at achieving maximum results given the limitations subject to which it operates. These methods include paying closer attention to internal audit in public enterprises. Efficient internal audit is not only one of the most powerful stimuli to correct, honest, efficient and economic management in the enterprise where it operates, but also will enable State audit to turn its attention to those areas of inspection where its special status and skills are of most value.

Thus to inspect public enterprises it is essential that State audit first of all review internal audit arrangements and their practical application, on the one hand reporting cases where the work of internal audit has been unsatisfactory, and on the other continually pressing government and the managements of audited agencies to ensure strong and independent internal audit systems.

Private accounting firms audit the books of many public enterprises, especially those constituted as limited liability companies. In cases where supreme audit institutions also have responsibility for auditing these same bodies, the work of the external auditor provides a valuable starting point. Links between external auditors of public enterprises and supreme audit institutions have therefore been institutionalized in certain States.

TYPES OF STATE AUDIT

The different types of State audit of public enterprises practised in various States can be classified according to the type of audit carried out. What concerns us first of all is to what extent the audit carried out by the SAI is a book audit, or regularity audit of the traditional type, and to what extent it is an efficiency, effectiveness or operational audit.

When we examine efficiency and economy, what we are in fact dealing with is an input-output function. Consequently, in order for our audit to reach clear conclusions, we need to compare the input-output relation that we observe in practice with some standard relation or previous situation. Simple measurement of this relation at any particular level of activity is not enough to tell us whether what we have observed or measured is good or bad.

One of the problems is that, when auditing the commercial efficiency of an economic organization, if we wish to reach an over-all evaluation of the results of its activity, we are sometimes unable to isolate each of the disciplines mentioned above and to check whether it made a positive or a negative contribution to the organization's efficiency in achieving its aims. For example, it is well known that a company's profit or loss is the result of interaction between internal factors within the company on the one hand (such as efficiency in production, efficiency in marketing, manpower administration, workforce skills, financial arrangements, etc.), and on the other hand, external factors outside the company (such as the state of the local, or sometimes the international market, action of competing firms, seasonal influences etc.). If we try to treat profit or loss as an index of efficiency and wish to reach audit conclusions as regards the efficiency of the body concerned on this basis, then we will have to be capable of isolating the relative influence and importance of all the internal factors within the company that contributed to the result achieved and likewise of isolating and evaluating the relative weight of factors external to the firm and their influence on its results.

If the problems involved in assessing to what extent a normal commercial company has achieved its objectives are inevitably complex, and difficult, then the problems involved in assessing the operating results of government companies are far more so, particularly in the case of government companies whose aims are not exclusively economic, but a combination of economic and social objectives, such as industrialization of development areas, absorption of immigration and producing jobs, providing basic services at low prices in order to stimulate economic development or for other social or economic reasons.

In the States where the British tradition of State audit prevails, the approach tends to be one of book and regularity audit. Thus in Canada, for example, the audit carried out by the Auditor General of the accounts of some Crown corporations is no different from the audit which private firms carry out for the

remaining Crown corporations. In South Africa, State audit covers certain statutory authorities. The form of audit is a regularity audit. In Britain itself, certain public enterprises drawing on the budget for the majority of their finance are first audited by accounting firms, but their audited accounts are only presented to Parliament after the comments of the Comptroller and Auditor-General have been attached. The situation is similar in New Zealand. In many developing countries too, State audit of public enterprises is limited to book audit, for example, Thailand or Korea. The SAI of such States may not yet have built up enough experience or suitable staff to undertake efficiency and operational audit.

In other States efficiency and operational auditing of public enterprises have been adopted in various degrees. In Spain, though the main burden of the audit is concerned with regularity, the Tribunal de Cuentas del Reino also considers the profitability of enterprises where the Government has a share, and is willing to recommend that the Government leave the enterprise if this seems in the public interest. In Austria, France, Germany and Israel State audit of public enterprises is eminently concerned with efficiency and profitability as well as regularity. In the United States the audit standards of efficiency and economy and programme achievement apply to audits of public enterprises no less than they apply to other audits.

In Spain and Latin America, where the SAI practise pre-audit, public enterprises too are subject to pre-audit.

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THE DECISION-MAKING PROCESS

Financial considerations are only one aspect of the decision-making of government companies. As mentioned a strategy based on considerations of profitability may sometimes mean that a government company is not serving the public interest. Still, public enterprises usually have social as well as economic objectives. The demand for government companies to show a commercial approach will be meaningless, unless the government compensates them for unprofitable operations imposed on them.

State audit, therefore, includes the auditing of the decision-making process in government companies by examining whether the company operates in accordance with the aims laid down for it, and whether they are based on consideration of a number of alternatives and on sufficient data concerning these alternatives. The more detailed the information on which decisions are based, the better they are likely to be. State audit can help in revealing additional information to prevent repetition of cases where not sufficient care was taken.

Also the composition and work procedures of the board of directors of a government company are likely to have a crucial effect on the soundness of its decisions. They should be such as to ensure thorough debate of important subjects, at which a wide variety of opinions is represented.

Another sensitive area is the use of expert advice in taking decisions. Administrative organs of government companies are entitled to take decisions against expert advice, since the factors which they are to take into account are broader than those that technical advisers consider. Good management also recognizes the uncertainty of technical opinions, particularly as regards investment costs in sophisticated projects. Nevertheless, technical advice necessarily carries weight.

State audit which operates a posteriori cannot always prevent the taking of irrational decisions. However, the exposure of unfounded decisions is an important contribution to the improvement of public administration, because it provides a basis for new ways of thinking which will help to prevent the recurrence of similar cases in future.

As mentioned in the beginning the Government also exercises direct control or at least exercises influence on the decision-making process of the government companies, through its shares, recommendations and by its right to appoint directors. It is the task of State audit to safeguard these rights of the State.

In spite of the numerous and various aspects State audit has to deal with, one of the major problems of the State audit of public enterprises remains the exact delimiting and measurement of the norms and criteria set forth by the auditor.

The number of specialized disciplines involved in the audit of public enterprises is one of the problems encountered by the Audit Institutions. Moreover the disciplines themselves often do not provide undisputed norms of efficient performance. The problem is most severe in government bodies where there is no binding annual budget which can serve as a norm for expenditure and production targets. In such cases the auditor must try to find an external norm for measuring efficiency - a norm from similar enterprises or a norm current in the economic sector concerned.

If no such norm can be found, then he must try to develop an internal norm of efficiency, comparing strategic indicators of the company's performance over time. Findings of inefficient and uneconomic operations necessarily raise the question whether human error is the cause or whether these actions were wilful, and those who took them failed to observe the irreproachable moral standards demanded in the public sector.

The complexity and importance of efficiency audit have clear implications with regard to the need to improve the level and training of State audit staff.

The general trend which emerges from the various arrangements for State audit of public enterprises in different States and from decisions of INTOSAI, is that the scope of SAI work in this area is expanding. This is true both quantitatively, with SAI competence being extended to public enterprises in general, not to mention all sorts of aided, subsidised and supported bodies, and qualitatively, with the State audit beginning to deal with questions of managerial accountability and undertaking operational, economy and efficiency, and programme results audit. In this situation the modern SAI is faced with an embarrassing wealth of potential material for audit.

A partial solution to this problem may be for SAI to rely more heavily on private auditing firms, and to lay down broad guidelines for the private audit of public enterprises.

What is clear is that it is of great importance (a) that SAI develop monitoring and survey techniques which will enable them to identify audit priorities in good time, and (b) that SAI develop audit techniques which will enable them to carry out penetrating audit of the commercial enterprises of the State at reasonable speed.



